



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON, DC

MEMORANDUM FOR ALMAJCOM/CE HQ USAFA/CE

21 SEP 2000

FROM: AF/ILE  
1260 Air Force Pentagon  
Washington DC 20330-1260

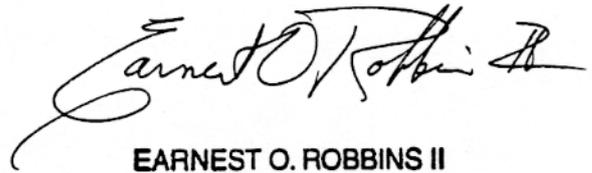
SUBJECT: Housing Privatization Policy

We have come a long way since the housing privatization program started. Over the past four years, we have developed and tested a number of concepts, processes, techniques, and execution methodologies, all very creative and all designed to bring housing privatization to fruition. Not surprisingly, we have learned many lessons along the way. Now, with two pilot projects awarded, two near award and two more nearing solicitations, we are ready to define a few parameters for future projects.

Although the five-year pilot program will expire in Feb 01, we anticipate Congress extending the authorities for housing privatization. Attachment 1 provides Air Force policy on specific concepts and issues that have been tested and determined to be in the best interest of the Air Force. These and other policy issues will be incorporated and/or updated in the next release of the Air Force Housing Privatization Policy and Guidance Manual and changes to Air Force Instructions relating to Military Family Housing. To that end, and allowing for the award of the next three projects and applying lessons learned, we plan to field this update by 1 Jan 01.

As you know, AFCEE has been designated the Housing Privatization Center of Excellence (Attachment 2). As such, they have a core of experienced professionals and consultants on board to address the unique issues, concerns and aspects of housing privatization. Specifically, they provide services ranging from advisor on specific privatization issues, to project agent with cradle to grave responsibilities. Further, AFCEE is clearly the right choice for the role of housing privatization portfolio manager that includes project documentation, monitoring, loan servicing oversight, and problem resolution through the life of the projects. In the interest of leveraging our scarce resources, MAJCOMs should use the services of AFCEE to the maximum extent possible in developing and executing privatization projects.

Questions regarding this or any other Air Force housing privatization issues can be addressed to Maj Rits at DSN 664-4028, Lt Col Brian Huizenga at DSN 664-4037 or Mr. Binks Franklin at DSN 664-4222 in AF/ILEIP.



**EARNEST O. ROBBINS II**  
Major General, USAF  
The Civil Engineer  
DCS/Installations & Logistics

Attachments:

1. AF Policy and Guidance
2. HQ AFCEE/CC Memo, dated 7 Jul 99 w/atch

cc:

AFCEE/CC

## AIR FORCE HOUSING PRIVATIZATION POLICY AND GUIDANCE

**Family Housing Master Plan:** The Air Force Family Housing Master Plan (FHMP) was approved by SECAF and CSAF in Aug 99. Housing privatization candidates, to include specific scopes of work, are identified in the FHMP and updates thereto. Projects approved in the plan must be executed in the fiscal year of appropriation and will not be accelerated or deferred without specific approval of the Air Staff. Once DD Forms 1391 are provided to Congress for authorization and appropriation, projects will be subject to MILCON procedures for scope and cost changes and approvals.

**Unsolicited Offers to do Business:** Unsolicited initiatives may be entertained on a case-by-case basis; however, they must meet the following criteria. Each project 1) must not exceed the entire housing requirement of the installation, as identified in the most recent housing market analysis, 2) must prove to be financially feasible as documented in a proforma and be financially attractive to the Government as documented in an economic analysis, 3) must meet existing privatization project criteria, i.e. severability, participation, and leverage, and 4) must offer a unique approach that cannot be offered by others in private industry or the public community. Unique approaches and competition will be validated by the results of an Air Force request from industry (RFI). This office (AF/ILEIP) will pursue approvals through the AF Integrated Process Team (IPT), Executive Steering Group (ESG), CSAF, SAF/MII, SECAF and DUSD(I), as deemed necessary.

**Lease of Land:** Conveyance of Air Force land is not generally considered in the best interest of the government. Therefore, to the extent practicable, privatization projects will use long-term ground leases and avoid conveyance of land underlying existing housing or other Air Force land made available for housing privatization. Exceptions must be fully justified financially, address current and future use, address school impact aid issues, and meet with AF process approval.

**Direct Loans and Guarantees:** The primary methodology for determining and implementing candidate project feasibility will be through the use of 10 USC, Section 2873, Direct Loans and Loan Guarantees. Section 2873 will be used unless it can be shown that using Section 2875 (Investments in Non-governmental Entities) offers a clear advantage to the Air Force (e.g., lower initial scored or lifecycle costs, potential to capture a large, but unknown, upside potential, etc). Benefit to the Air Force, not profit, shall remain our paramount concern. Final determination of any advantage will be reserved for the Air Force Executive Steering Group.

**Allotments:** The authority in Section 2882 (Lease Payments Through Pay Allotments) shall be exercised at each privatization location. Payment of rent by allotments fosters a positive Air Force image in terms of private military tenants paying rent on time. Further, financial institutions lending money to private developers favor payment of rents by allotment. Exceptions must be fully justified and meet with AF Executive Steering Group approval.

**Utility Allowance:** Military tenants are responsible for payment of utility consumption in privatized housing. In an attempt to mitigate out-of-pocket costs to members, a utility allowance will be calculated by the offerors and validated by the Air Force, for each unit type in

a project, and that allowance will be mathematically deducted from the members full BAH to determine the projected rent for the unit type. Calculations will be based on 110% of average utility consumption calculations in determining the utility allowance for each unit type. Estimated consumption will be calculated using energy star or similar methodology. Utility allowances and rents will be re-calculated and re-validated annually incorporating actual consumption data and revised BAH entitlements until a five-year rolling average of actual data can be used in the calculations.

**AAFES/DeCA/MWR Activities and Facilities:** The requirements of 10 USC 2881(b) must be met. Specifically, privatization projects “may not include the acquisition or construction of an ancillary supporting facility if, as determined by the Secretary concerned, the facility is to be used for providing merchandise or services in direct competition with –

1. the Army and Air Force Exchange Service
2. the Navy Exchange Service Command
3. a Marine Corps Exchange
4. the Defense Commissary Agency
5. any nonappropriated fund activity of the Department of Defense for the morale, welfare, and recreation of members of the armed services.”

**Occupancy Priority:** The priorities for renting to tenants other than referred military families shall be as follows. Variations must be fully justified and meet with AF Executive Steering Group approval.

1. Other Active Duty Military Members
2. Federal Civil Service Employees
3. Retired Military Members/Families
4. Active Guard and Reserve Military Members/Families
5. Retired Federal Civil Service
6. DoD Contractors/Permanent Employees (US Citizens)
7. General Public

**Accounts:** Typically, use of Capital Replacement Reserve, Reimbursement, and Lockbox accounts are expected in a privatization concept. Additional accounts result in more complex initiatives, additional project costs, and minimal return to the Air Force, thus providing little, if any, value to the project. Therefore, other reserve, maintenance, and performance type accounts shall be kept to a minimum, and include only those accounts necessary to protect Air Force investments and interests.

**Unit Based Rents:** Each housing unit in a privatization project should be constructed or renovated for a specific grade based on the projected requirements of the installation. Rental income for the project will be based on the total rents from each specific unit. That is, the rent projected for each unit should be calculated as the total BAH for the designated grade for that unit, less the utility allowance for that type unit. Use of member based rents in housing privatization projects is prohibited. Member based rents are those where the rent is dependent by the grade of the member living in the unit, whereby the rent for a particular unit is subject to change depending on who occupies the unit.

Example: When a member is promoted during the term of a lease (example E5 promoted to E6), the member will be allowed to remain in that E5 unit at the E5 rate specified in the tenant/landlord lease, until that lease expires. Upon lease expiration, the member may choose to move into an E6 unit or the member will have the option to remain in the E5 unit; however, the rent will now be based on the BAH of the higher rank E6. Should the latter happen, the developer may rent another E6 unit to an E5 (to balance the demographic requirements as identified at deal closing) charging rent based on the E5 BAH. The net result would be a switch of E5 and E6 units and their respective rents, thus providing no more or less E5 or E6 units and no net addition or reduction in rents. Renting up or down may only be allowed as approved (on a case-by-case basis) by the base housing office or other Air Force designee responsible for tenant referrals.

**Windfall Income:** Request for Proposals (RFP) will address potential Windfall Income which is defined as that portion of the Offeror's gross income attributable to changes in BAH due to legislation or policy changes over the life of the business arrangement (i.e. any BAH increases that are adjusted over and above the current policy of 85% of the cost against the economy). The Secretary of Defense announced in January 2000 plans to significantly increase military housing allowances (BAH) over the next five years. The planned increases in BAH are intended to eliminate the present 18.8% overall "out-of-pocket" housing expenses. These planned increases are contingent and may not occur. Financial proformas for solicitations should not anticipate the announced revenue increase because the increase has not yet been approved through the governmental budgetary process. RFPs shall require Successful Offerors to establish and maintain a federally insured, interest bearing account to be known as the Windfall Income Account into which it will deposit on a monthly basis any windfall income as described above. Quarterly, the Successful Offeror shall disperse 100% of the contents of the Windfall Income Account in the following priority order:

1. Pay principal on the direct government loan.
2. Pay principal on the government guaranteed loan.
3. Transfer money to the Reinvestment Account.