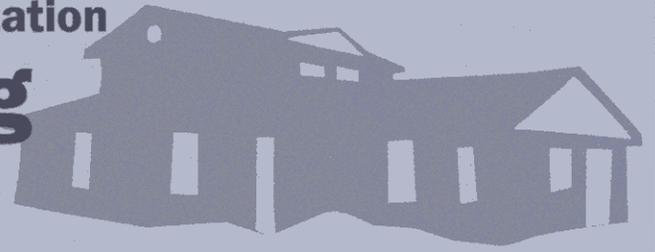




# Air Force Housing Privatization Cost Scoring



**Information Sheet**  
AIR FORCE CENTER FOR ENVIRONMENTAL EXCELLENCE

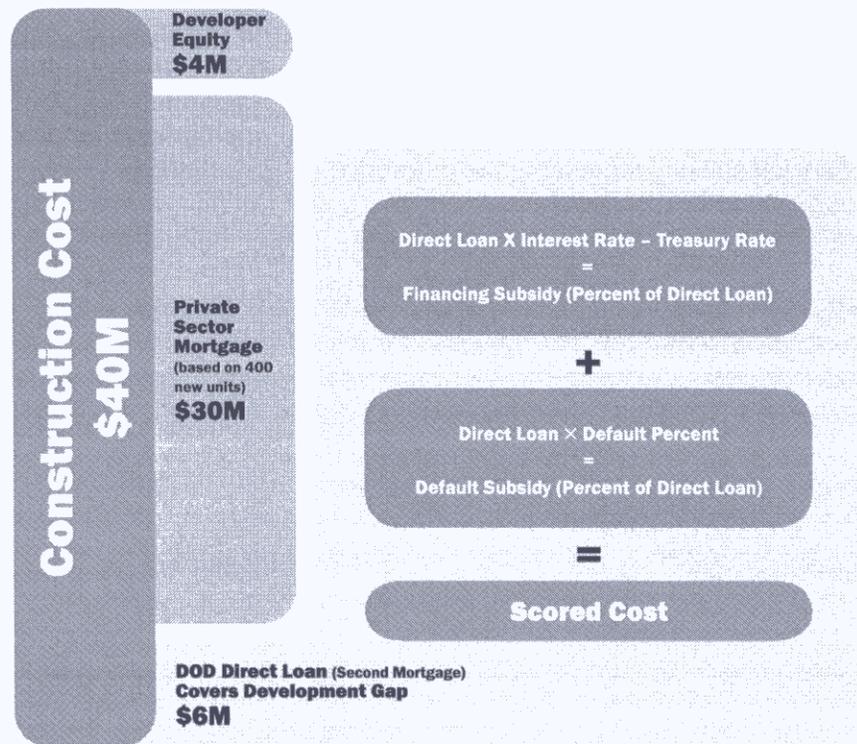
In order to establish the appropriate development strategy for a housing privatization project, the Air Force evaluates the developers' proposals, validates the uses and sources of development funding, and uses a cost scoring system to bridge any funding gaps. All housing projects must be scored since cost scoring provides the funding to cover the potential future costs of the project and determines the government's long-term financial obligations.

When determining the development budget for a project, the Air Force considers construction costs, which finance the demolition or renovation of old housing units as well as the construction of new units. The combination of a private sector mortgage and the developer's equity accounts for the majority of the funding; however, it generally does not cover the entire cost of the project. This gap

in development funding is filled by a direct loan from the federal government, which varies in size depending on the amount of the budgetary shortfall for the project.

The scored cost for a project is based on the amount of government funding required to complete the total construction cost and the amount of time that the loan is outstanding. Much like a student loan, the interest rate—and subsequently the risk of default

## Financial Development Gap for Housing Privatization



**Note: These dollar amounts are for illustrative purposes only. They are not intended to represent actual cash flows.**



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## BACKGROUND

The 1996 Defense Authorization Act provided the military services with new authorities to privatize housing for service members. This program is known as the Military Housing Privatization Initiative (MHPI). The MHPI allows the services to address their housing needs by utilizing privately financed and built or renovated houses constructed to local market standards (i.e., the typical housing size and amenities found in the local community).

In August 1998, the Air Force Center for Environmental Excellence (AFCEE) was designated as the Air Force's Military Housing Privatization Center of Excellence. To support Air Force housing privatization, AFCEE developed an internal project management structure and approach that can be tailored to fit the particular project needs.

on the loan—increases progressively over the life of the loan and eventually stabilizes as determined by the Office of Management and Budget (OMB), which caps the default rate. Consequently, the scored cost depicts what it would cost the government to insure the housing project, knowing that there is a possibility that the developer may default on the loan.

The Air Force employs a predictive model to generate the cost for a housing project using traditional military construction methods (MILCON). The dollars appropriated for MILCON are used to cover the initial scored cost for the project. The scored cost contains two components: a financing subsidy and default subsidy. The financing subsidy represents the difference

between what the developer agrees to pay on the loan (the interest rate) and the current treasury rate. The default subsidy describes the risk that the developer may not be able to pay back the loan due to factors such as troop deployment, base closure and mission change.

In order to determine the final scored cost for a housing project, the Air Force reviews the developers' proposals to estimate future project costs and evaluate development options. It then uses the OMB subsidy calculator to determine the final scored cost for the selected proposal. While scoring is not a part of the development costs, it is a critical supplement to the limited appropriated funds available for housing privatization.

## FOR MORE INFORMATION

**Air Force Center for  
Environmental Excellence**  
AFCEE/DCP  
2735 Louis Bauer Drive  
Brooks AFB, TX 78235-5133  
(210) 536-3032  
<http://www.afcee.brooks.af.mil>



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