



Air Force Housing Privatization Portfolio Management Lockbox Accounts



AIR FORCE CENTER FOR ENVIRONMENTAL EXCELLENCE Information Sheet

Placing all Project Income into Lockbox Accounts is a mechanism to ensure that all funds are utilized in accordance with the parties and that funds will be available to meet project requirements. The Lockbox Agreement establishes the Lockbox Accounts and provides for the direct deposit of all project revenues into a federally insured depository institution. The parties to the Lockbox Agreement are the Project Owner, the Air Force, the Construction Lender, the Senior Lender, and the independent third party Lockbox Agent (usually a bank or trust company with statutory powers to act as an escrow agent). Once the Lockbox Agreement is executed, the Lockbox Accounts fund and operate the privatized housing project while ensuring compliance with Government interests and goals.

The Lockbox Agreement includes, at a minimum, nine federally insured, interest-bearing account types. Project Income flows through the Lockbox Accounts according to a waterfall distribution, which begins when funds are deposited in the Lockbox Revenue Account. The flow of money through the Lockbox Accounts occurs in two stages: funds transferred from the Lockbox Accounts prior to project completion and funds transferred after project completion.

- 1. Windfall Income Account**—"Windfall Income" is defined as that portion of the Project Owner's gross income attributable to changes in the Basic Allowance for Housing (BAH) due to the Secretary of Defense Cohen Initiative to eliminate out-of-pocket expenses by 2005.
- 2. Lockbox Revenue Account**—This account is the initial receptacle for

Project Income, which is distributed into the other Lockbox Accounts according to the terms of the Lockbox Agreement.

- 3. Impositions Reserve Account**—Funds in this account cover applicable property tax payments and insurance premiums throughout the life of the project.
- 4. Replacement Reserve Account**—This account finances the ongoing repair, replacement, modernization, and upgrading of the privatized project.
- 5. Operating Reserve Account**—Funds from this account finance operating expenses exceeding those amounts allotted for monthly Operating Expenses.
- 6. Other Eligible Tenants Security Deposit Account**—This account administers Other Eligible Tenant deposits and fees in conformity with applicable state law.
- 7. Utility Reserve Account**—In the event of utility rate increases for electricity, water, sewer, natural gas, and steam heat, capital from the Utility Reserve Account offsets costs that would otherwise diminish Project Income.
- 8. Construction Escrow Account**—This account receives cash flow from existing rental units remaining after operating expenses, impositions, and reserves are funded. These funds are used to finance demolition and construction costs. The Project Owner deposits its initial cash equity contribution into this account, which remains in place through the 50-year business arrangement.



U.S. AIR FORCE

9. Reinvestment Account—This account is utilized throughout the life of the project to reduce the Government’s financial liability, ensure that the original project goal is met, and enhance the property through quality-of-life improvements that benefit the tenants.

The Project Owner and its Lockbox Agent are responsible for maintaining accurate books and records for all Project Income in the

Lockbox Accounts. The lockbox mechanism assures that project construction, operation, maintenance, and financing proceed in accordance with Government goals and regulations. Additionally, the ongoing nature of housing privatization demands astute funds management from a project’s outset; the Lockbox Accounts fulfill this need by providing a structured financial mechanism for cash flow and reinvestment.

PORTFOLIO MANAGEMENT SERIES

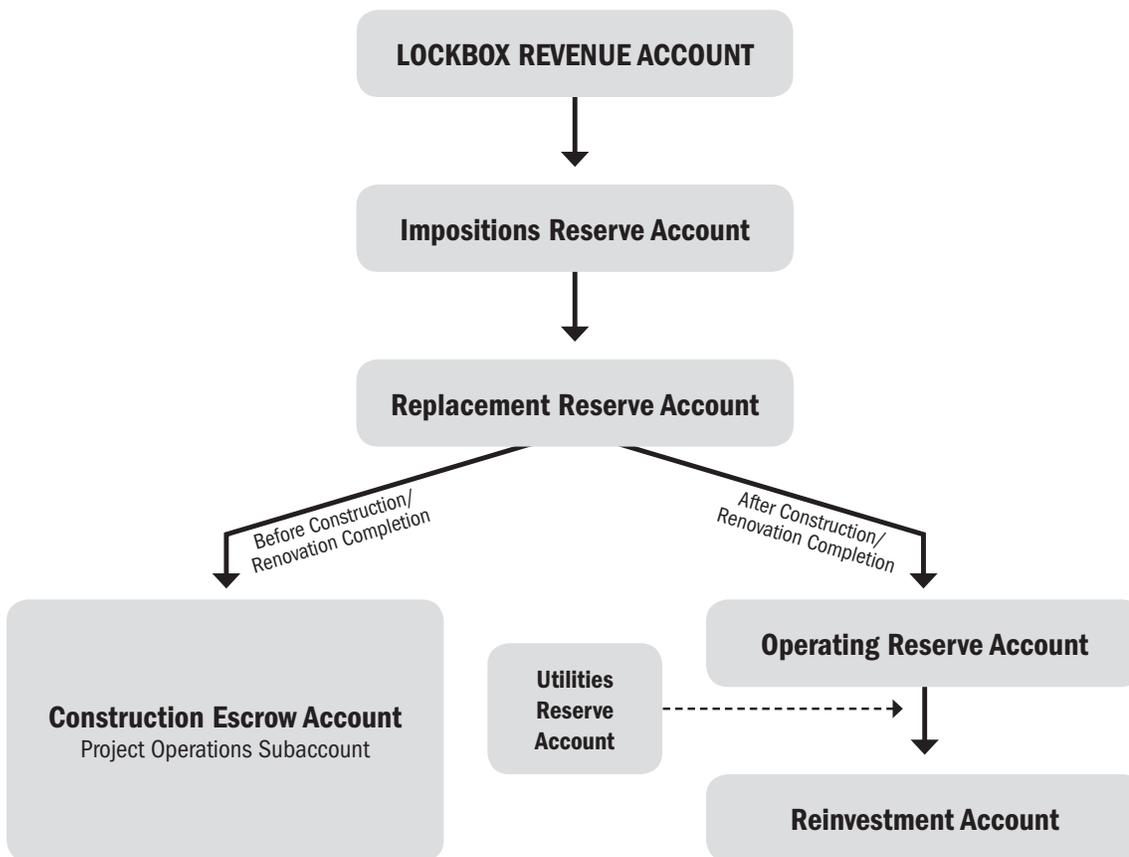
This Information Sheet is one in a series on the subject of Portfolio Management. In February 2001, the Air Force Center for Environmental Excellence (AFCEE) was designated as the Air Force Housing Privatization Portfolio Manager. AFCEE executes its Portfolio Management responsibilities with the assistance of Jones Lang LaSalle (JLL), the current Portfolio Management support consultant.

From transaction closing through project closeout, the Portfolio Manager acts in oversight, monitoring, and guidance roles on behalf of the Air Force to protect the Government’s interests. (Project closeout is at the conclusion of the transactional performance period, assets are disposed of and the project is closed out.)

FOR MORE INFORMATION

Air Force Center for Environmental Excellence
 Ms. Sheryl Faust-Beck
 Air Force Portfolio Manager
 HQ AFCEE/DCP
 2735 Louis Bauer Drive
 Brooks City-Base, TX
 78235-5133
 (210) 536-9580
<http://www.afcee.brooks.af.mil/dc/dcp/news/>

Lockbox Account Flow



U.S. AIR FORCE