Moore Larry D Civ AFCEE/DCP

From: Moore Larry D Civ AFCEE/DCP
Sent: Wednesday, December 04, 2002 1:29 PM
To: Heise Julie A Civ AFCEE/PKVH
Cc: Potter Perry D Civ AFCEE/DCP
Subject: FW: Financial Policy: Inflation, Interest Rates, Zero Scored Costs

-----Original Message-----
From: Moore Larry D Civ AFCEE/DCP
Sent: Wednesday, December 04, 2002 12:35 PM
To: 'Cyrus Gardner (E-mail)'; 'Kevin Wayer (E-mail)'; 'Peter S. Cooke (E-mail)'; 'Ralph Basile (E-mail)'; 'Ron Label (E-mail)'
Cc: AFCEE/DCP Staff; Milano Daniel SAF/FMCE; Franklin Binks Mr AF/ILEHM; 'Melinda L Denley (E-mail)'; 'Hagop Avedissian (E-mail)'; 'Virginia Scott (US) (E-mail)'; 'Stephen Redlich (E-mail)'; Rooney Carol E Contr ACC/CEPH; 'Kent Palermo (E-mail)'
Subject: Financial Policy: Inflation, Interest Rates, Zero Scored Costs

Ladies and Gentlemen:

AFCEE and SAF/FMCE are developing guidance to standardized all financial documents associated with privatization to include EA preparation, scoring reports, pro formas, etc. Additionally, this guidance will contain a number of key policy directives that, among others, will allow AFCEE to better track modifications to previously approved documents. Our goal is a January 2003 release date. Until then, you are to utilize the following inflation rates and commercial mortgage interest rate methodology for all concept pro formas and preliminary EAs that have not been forwarded to the MAJCOM for concept approval.

Inflation Rates:

Formerly known as DRI-WEFA (Data Resources Inc and Wharton Econometric Forecasting Associates), Global Insight (www.globalinsight.com) has been widely used and highly respected by corporate executives, money managers, bankers, economists, and government policy makers around the world. SAF/FMCE developed the following inflation and treasury rates below based on Global Insight's forecasts. These rates will be updated annually by SAF/FMCE and will be posted on AFCEE's Housing Privatization website (www.afcee.brooks.af.mil) and the SAF/FM website (www.saffm.hq.af.mil) under a new privatization section. Note: Air Force inflation tables are not used for this purpose because we are estimating expenses in the private sector, and not government expenses by major budget account (MBA).

Inflation Rates (as of Oct 2002)
GDP: 2.59%
Rental Income and BAH: 2.59%
Housing Construction: 2.59%

Commercial Mortgage Interest Rate (Methodology for Concepts):

The majority of commercial loans are based on a spread over the 10-year treasury rate. The actual value of the spread will depend on the credit rating (risk) of the proposed project. The higher the credit rating, the lower the spread. Most housing privatization projects fall between AAA (the best) to BBB credit rating. The next two tables are the acceptable spreads and the latest forecast of the 10-year Treasury rate based on the anticipated award date to be used in all housing privatization concepts.

10 Yr Treasury Forecast	Credit Spread
CY2003: 4.64%	Low (AAA): 1.00%
CY2004: 5.71%	High (BBB): 1.75%
CY2005: 6.03%	