



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110



January 17, 2003

REPLY TO
ATTENTION OF

Honorable Joel Hefly, Chairman
Subcommittee on Readiness
United States House of Representatives
2230 Rayburn House Office Building
Washington, DC 20515-0001

Dear Mr. Chairman:

In accordance with section 2884, Title 10, United States Code, this letter notifies you of The Army's intent to competitively select a developer for the privatization of military family housing at Fort Leonard Wood, Missouri, Fort Bliss and Fort Sam Houston, Texas through a Request for Qualifications (RFQ) process. A report summarizing the proposed project is enclosed.

We are submitting this notice pursuant to Section 125 of the Military Construction Appropriations Act for Fiscal Year 2002, Public Law 107-64. Section 125, requires the Department of the Army to notify Congress 60 days before issuing any solicitation for a contract with the private sector for military family housing that may propose a loan guarantee in the scope of the project. Once the Army and the developer selected for the project have completed the Community Development and Management Plan (CDMP) required under the RFQ, we will ensure, in coordination with the Department of Defense, that Congress is provided at least 45 days to review the CDMP prior to any action taken to authorize its implementation.

The Office of the Deputy Under Secretary of Defense for Installations and Environment concurs with our intent to proceed toward selection of a partner or partners for these projects. We would be pleased to provide you with any additional information you may need. This letter has been sent to the House and Senate Armed Services and Appropriations Committees, as well as the appropriate subcommittees of jurisdiction.

Sincerely,

William A. Armbruster

Deputy Assistant Secretary of the Army
Privatization and Partnerships

Enclosure

cc: Honorable Neil Abercrombie, Ranking Member



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

March 4, 2003

The Honorable Joel Hefley
Chairman
Subcommittee on Readiness
Committee on Armed Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 USC, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

The economic analysis summary supporting privatization of the Aberdeen Proving Ground, Maryland, Electric Transmission System is enclosed. Privatization is expected to result in an estimated equivalent uniform annual cost avoidance of \$94,600 when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the Electric Transmission System and award a fifty-year contract for utility services at Aberdeen Proving Ground, Maryland, to the Baltimore Gas and Electric Company 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Armbruster".

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Solomon Ortiz
Ranking Member

OK TO PUS



**Department of the Army
Aberdeen Proving Ground, Maryland
Privatization of the
Electric Transmission System**

Economic Analysis

February 2003

Executive Summary: Economic analysis demonstrates that transfer of the Aberdeen Proving Ground (APG) Electric Transmission System to the Baltimore Gas and Electric (BGE) Company will reduce the Government's cost over the 50-year contract term by an estimated \$1.6 million (Net Present Value). The estimated Equivalent Uniform Annual Cost Avoidance is \$94,600 or 78.5 percent.

Overview of the Utility System: APG contains two geographically separated operating areas: the Aberdeen Area (AA) and the Edgewood Area (EA). Electric delivery service within each area is provided by separate Government-owned distribution subsystems. Each subsystem contains a number of 33 kV circuits that deliver power to buildings and other service locations. The Installation also owns a transmission subsystem that consists of a number of 115 kV transmission lines and the 115/33 kV Aberdeen Substation, which reduces the service voltage for the AA to the 33 kV distribution level. The Government-owned and BGE-operated subsystem previously included the 115/33 kV Edgewood Substation (also referred to as the Magnolia Substation) that served the EA distribution system. The average age of the entire Government-owned transmission subsystem is 28.4 years.

Description of the government's "Should Cost" estimate (SCE): The government's "should cost" is the total cost of service to own, operate, maintain and re-capitalize the electric transmission system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value (FMV) for the utility system in return for conveying the system to the contractor. The Government determined FMV is \$ 2.6M.

Procurement History: The Government issued Request For Interest for the potential privatization of APG' electric distribution system. A market survey for privatized electric transmission utility service was prepared in February 2001. The survey addressed responses to the RFI as well as the modifications to the APG's 1950 Contract. APG and BGE initiated negotiations for the privatization of the electric transmission system in 2001.

Life Cycle Cost Analysis (LCCA): Based on the information provided by BGE, the privatization alternative was evaluated in comparison with the Status Quo

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost Avoidance	Equivalent Uniform Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 2.0 M	\$.120 M	-	-
Contractor Ownership	50	\$.432 M	\$.026 M	\$ 0.95 M	78.5 %

As summarized above, the privatization of the APG Electric Transmission System under BGE's proposal will reduce the Government's cost of electrical utility service over the 50-year contract term by an estimated \$1.5 million on a net present value basis, or approximately 78.5 percent, as compared to the Government's Status Quo (Should Cost) alternative. Privatization is expected to result in an estimated annual cost avoidance of \$ 94,600 per year.

Conclusions and Recommendations: The privatization of APG's Electric Transmission System under BGE's proposal is economically viable. Additionally, the following findings are provided:

1. The privatization of Electric Transmission System assures future upgrades and additions to this system.
2. The utility privatization action will be a cost-effective means to provide safe and reliable electrical utility service to the Installation.
3. Based upon the economic analysis, the privatization of the APG Transmission System will result in an overall lower cost of utility service than continued government ownership.



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

March 3, 2003

The Honorable Joel Hefley
Chairman
Subcommittee on Readiness
Committee on Armed Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 USC, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

The economic analysis supporting privatization of the Fort Sill, Oklahoma, Water and Wastewater Utility Systems is enclosed. Privatization is expected to result in an estimated annual cost avoidance for the Water System of \$102,000 and Wastewater System of \$148,000 when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the Water and Wastewater Utility Systems and award a fifty-year contract for utility services at Fort Sill, Oklahoma, to the American Water Services, Inc., 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "W. A. Armbruster".

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Solomon Ortiz
Ranking Member

OK TO PUB



**Department of the Army
Fort Sill, Oklahoma
Privatization of the Water and
Wastewater Utility Systems**

Economic Analysis

Feb 2003

Executive Summary: The Fort Sill economic analysis supports privatization of the Water and Wastewater Utility Systems. An economic analysis was conducted for each of the two systems - Water and Wastewater Systems. The analyses indicate that each system is economical to privatize. Privatization is expected to result in an estimated annual cost avoidance for the water system of \$102,000 and Wastewater System of \$148,000 when compared to the cost of continued Government ownership and operation.

Overview of the Utility System:

Water System: Treated water is purchased from the City of Lawton at three primary connection points with meters at the connection points owned, operated and maintained by the city of Lawton. The water delivery system consists of the following:

- No central treatment plant
- Water distribution system: 550,755 Linear Feet (estimated at 75% cast, ductile and galvanized iron; 10% transite; 9% PVC; and 5% copper),
- Manholes: estimated at 1,250
- Water Pump/Lift Stations: 4 (approximately 2500 gpm max. each station)
- Aboveground Water Tanks: 7 (4.25 million gallon total capacity)
- Fire Hydrants: estimated at 584 units

Wastewater system: Treats an average of 2 million gallons/day. The wastewater delivery system consists of the following:

- 4.3 million gallon/day (design) Wastewater Treatment Plant; with primary, secondary, tertiary treatment; and sludge handling and disposal facilities
- Wastewater Collection System: 492,468 Linear Feet with 87% of the pipe vitrified clay
- Wastewater Manholes: estimated at 1360
- Wastewater Pump/Lift Stations: 9
- Wastewater Lagoons: 1 (at remote recreation site)
- Wastewater septic tanks: 2 (at remote recreational sites)

Description of the government's "Should Cost" estimate (SCE): The government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the water / wastewater utility systems. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on water and wastewater utility systems.

Procurement History: Two proposals were received from the following contractors: American Water Services Inc. (AWS) and American States Utility Services (ASUS). The Source Selection Evaluation Board met August 2, August 5, 2002. At the completion of the initial technical evaluations it was determined that both offerors were capable of meeting the Request for Proposal requirements.

Life Cycle Cost Analysis (LCCA): Based on the information provided by AWS, the privatization alternative was evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of the two alternatives were developed utilizing UPEAST. The results of the LCCA are summarized in the following tables:

Water System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 35.7 M	\$ 2.1 M	-	-
Contractor Ownership	50	\$ 34.0 M	\$ 2.0 M	\$ 0.102 M	4.8 %

Wastewater System:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 49.9 M	\$ 2.9 M	-	-
Contractor Ownership	50	\$ 47.5 M	\$ 2.8 M	\$ 0.148 M	5.0 %

As summarized above, the privatization of the Fort Sill Water and Wastewater Utility Systems under AWS' proposal is expected to result in an estimated annual cost avoidance for the water system of \$102,000 and Wastewater System of \$148,000 when compared to the cost of continued Government ownership and operation.

Conclusions and Recommendations: The privatization of Fort Sill's Water and Wastewater Utility Systems under AWS' proposal is economically viable. Additional, the following findings are provided:

1. The privatization of Fort Sill's Water and Wastewater Utility Systems will eliminate the need for the installation to perform these functions and will allow a firm whose competence is water and wastewater utility system operation and maintenance to operate and maintain the systems.

2. The privatization of Fort Sill's Water and Wastewater Utility Systems assures future upgrades and additions to these systems.

3. The utility privatization action will be a cost-effective means to provide safe and reliable water and wastewater utility services to the Installation.



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

March 3, 2003

The Honorable Joel Hefley
Chairman
Subcommittee on Readiness
Committee on Armed Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 USC, Section 2688, Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

The economic analysis supporting privatization of the Fort Irwin, California, Electrical Distribution Utility System is enclosed. Privatization is expected to result in an estimated annual cost avoidance of more than \$ 141,900, over the fifty-year term of the contract, when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the Electric Distribution Utility System and award a fifty-year contract for utility services at Fort Irwin, California, to the Southern California Edison Company.

Sincerely,

William A. Arnbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Solomon Ortiz
Ranking Member

OK TOPUS



**Department of the Army
Fort Irwin, California
Privatization of the Electrical
Distribution Utility System**

Economic Analysis

Feb 2003

Executive Summary: Economic analysis demonstrates that transfer of the Fort Irwin Electrical Distribution Utility System to the Southern California Edison Company (SCEC) will reduce the Government's cost over the 50-year contract term by an estimated \$ 2.3 million (Net Present Value). The Equivalent Uniform Annual Cost Avoidance is \$ 141,900 or 7.4 percent.

Overview of the Utility System:

Electricity is purchased from SCEC. The electrical distribution system consists of the following:

- Conductors and Devices: Overhead (703,091 Feet of Wire; 134 Switches); Underground (189,202 Feet Insulated Cable; 5 Switches).
- Transformers: 717 (512 Above Ground, 205 Underground)
- Services: Overhead - 504 units; Underground From Overhead Source – 12,072 Feet; Underground From Underground Source – 131,936 Feet.
- Street Lighting Systems: Overhead (Cable - 22,755 Feet, Luminaire - 399); Underground (Cable - 76,687 Feet, Electrolier - 453, Luminaire - 454).

Description of the government's "Should Cost" estimate (SCE): The government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electric distribution utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the electric distribution utility system.

Procurement History: Fiscal Year 1996 Defense Authorization Act, Public Law 104-106, Section 2883 allows the Secretary of the Army to privatize the Fort Irwin Electrical Distribution System to SCEC. Both technical and economic analysis supports the decision to privatize the electrical distribution system to SCEC.

Life Cycle Cost Analysis (LCCA): Based on the information provided by SCEC, the privatization alternative was evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of the two alternatives were developed utilizing UPEAST. The results of the LCCA are summarized in the following table

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 32 M	\$1.9 M	-	-
Contractor Ownership	50	\$ 29.7 M	\$ 1.8 M	\$ 0.142 M	7.4 %

As summarized above, the privatization of the Fort Irwin Electric Distribution Utility System under SCEC's proposal will reduce the Government's cost of electrical utility service over the 50-year contract term by an estimated \$2.3 million on a net present value basis, or approximately 7.4 percent, as compared to the Government's Status Quo (Should Cost) alternative. Privatization is expected to result in an estimated annual cost avoidance of \$ 141,900 per year.

Conclusions and Recommendations: The privatization of Fort Irwin's Electric Distribution Utility System under SCEC's proposal is economically viable. Additionally, the following findings are provided:

1. The privatization of Fort Irwin's Electric Distribution Utility System will eliminate the need for the installation to perform this function and will allow a firm whose competence is electrical distribution utility system operation and maintenance.
2. The privatization of Fort Irwin's Electric Distribution Utility System assures future upgrades and additions to this system.
3. The utility privatization action will be a cost-effective means to provide safe and reliable electrical utility service to the Installation.

4. Based upon the economic analysis, the privatization of the Fort Irwin Electric Distribution Utility System will result in an overall lower cost of utility service than continued government ownership.

10 U.S.C. 2884 PROJECT REPORT

INSTALLATION: Midwest Projects

SCOPE:

The Army intends to establish a long-term business relationship with one or more private sector entities for the purpose of improving the military family housing community at Fort Leonard Wood, Missouri with 2,472 units; Fort Bliss, Texas with 2,762 units and Fort Sam Houston, Texas with 925 units. There are currently 6,159 government-owned family housing units at these three Midwest locations. Should the Army validate a family housing deficit at any of the installations, included in this project, then the successful offeror will be asked to address the need for additional units within project economic constraints and Department of Defense programming requirements.

The Army intends to transfer ownership of the existing family housing units and provide an appropriate long-term interest in the underlying land to the selected offeror(s), who will serve as the residential community developer and property manager. In return, the partner(s) will replace or renovate a specified number of units and upgrade the balance of the requirement during the initial 10 years at each of the three installations included in this project. During the out-year development period (years 11-50), the entire military family housing inventory will be replaced or provided major renovation.

AUTHORIZATIONS:

Authorizations for this project are: (1) Section 2801 of the National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106, 110 Statute 186, identified as the Military Housing Privatization Initiative (MHPI), as extended in Section 2806, and (2) Extension of Alternative Authority for Acquisition and Improvement of Military Housing which became Public Law under Enactment of Provisions of H.R. 5408, the Floyd D. Spense National Defense Authorization Act for FY 2001.

SUMMARY OF PROPOSED TERMS FOR AGREEMENT:

The Army will select a partner or partners for the U.S. Army Midwest RCI project based on full and open competition through a two-step Request for Qualifications (RFQ) process. This RFQ includes the following installations: Fort Leonard Wood, Missouri, Fort Bliss and Fort Sam Houston, Texas. Award to the successful offeror(s) is scheduled for fiscal year 2004.

The RFQ emphasizes the selection of a developer based on a two-step evaluation process. An initial base competency screening will be completed by evaluation of a five-page submission of Minimum Experience Requirements (MERs). MERs have been established to address the skill sets of residential community development, property management, and real estate financial capability. The first step of the RFQ process will identify those offerors determined to be highly qualified and thus eligible for further consideration for potential long-term business relationships. Selection to this exclusive

competitive range will be based upon evaluation of a seventy-five page submittal where offerors will address the five evaluation factors of (1) Experience, (2) Financial Capability, (3) Organizational Capabilities, (4) Past Performance and (5) Small Business Utilization. At the conclusion of step one OASA (I&E), the Contracting Officer and all offerors selected to the exclusive competitive range will have open discussions on the most effective and efficient method for the conduct of the second step. At a minimum, the second step will involve evaluation of oral and written presentations addressing four project specific factors: (1) Preliminary Concept, (2) Organization, (3) Financial Return, and (4) Utilization of Small and Disadvantaged Business.

The selected partner(s) will work closely with the Army to jointly develop an installation specific Community Development and Management Plan (CDMP) that is acceptable to the Army, Office of the Secretary of Defense, and Congress. The CDMP will describe all aspects of the project, for each installation, to include financing, construction, revitalization, management, and operation of the family housing units. It is estimated that it will take approximately 210 days to complete and staff the CDMP. All of the Military Housing Privatization Initiative authorities will be considered in developing the CDMP, and Congress will be provided at least 45 days to review the CDMP prior to its execution. After this notification, if authorized by the Army, the selected offeror(s) will begin execution of the CDMP for the Fort Leonard Wood, Fort Bliss, and Fort Sam Houston projects.

JUSTIFICATION:

Through RCI, the Army seeks to bring private sector resources and market-based incentives to improve the quality of life for soldiers and their families in military family housing communities.

FUNDING:

Funds that may be used in support of this project include Military Personnel, Army for payment of the Basic Allowance for Housing (BAH), annual Army Family Housing Operations Funds, Army Family Housing, Construction Funds, and/or Department of Defense Family Housing Improvement Funds.