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

REPLY TO
ATTENTION OF

October 3, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, 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.

A summary of the economic analysis supporting privatization of the Kilauea Military Camp/Pohakuloa Training Area, Hawaii, potable water utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of $.255 million compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the potable water utility system and award a twenty-five year contract for utility services at Kilauea Military Camp/Pohakuloa Training Area, to Pural Water Specialty 21 days after the receipt of this letter.

Sincerely,

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

Enclosure

cc: The Honorable Ike Skelton
Ranking Member

Department of the Army
Big Island, Hawaii
Privatization of the Potable Water System

Economic Analysis Summary

September 2003

Executive Summary: The economic analysis conducted for the potable water utility system Big Island, Hawaii, demonstrates that privatization will reduce the Government's cost over the 25-year contract term. The economic analysis for the potable water system resulted in an estimated annual cost avoidance of $254,473 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: The Army Potable Water System on the Big Island of Hawaii consists of two sub-systems; one at the Kilauea Military Camp and one at Pohakuloa Training Area.

Kilauea Military Camp (KMC) Sub-system:

The KMC sub-system collects rainwater from the roofs of the facilities within the Camp area as well as from a six-acre watershed located approximately three miles above the camp area on private land owned by the Bishop Estate. Rainwater from the roofs and the watershed is collected and stored in steel tanks throughout KMC and the catchment area. Average water usage is approximately 30 Kgals, ranging from a low of 15 Kgals when the camp is empty to a high of 36 Kgals when the Camp is full. The potable water system was initially installed in the 1930s. The water treatment plant (WTP) was built in 1997. The plant includes two sand filters, two limestone contactor tanks, a chlorine gas system, and a chlorine tablet system.

Pohakuloa Training Area (PTA) Sub-system:

The PTA sub-system is designed to obtain potable water from natural springs located approximately 3.5 miles northeast from the Base Camp. Three springs supply raw water to PTA - Hokupani Spring, Waihu Spring, and Liloe Spring. Water from the natural springs is captured by two, 2-inch pipes running from the springs, through water catchments, and down to the Base Camp. In 1996 the Army installed a slow sand filter water treatment plant, due to start-up problems and other issues, the system is not currently operational. A recently completed study indicates that repairs and modifications are required for the system to operate. Based on the Sand Filter Assessment study performed on March 2002, it will cost approximately $157,000 to bring the Sand Filter operational. This cost includes refurbishing and upgrading existing treatment system and water mains. The Army has been purchasing and hauling its entire water supply through a service contract due to excessive turbidity in the spring water.

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 potable water 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 potable water utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined the fair market value to be $2,717,000.

Procurement History:

1. The solicitation was issued 24 July 2001 with a closing date of April 2002.
2. One proposal was received from Pural on 19 April 2002.
3. Discussions took place from May 2002 through Mach 2003.
4. Negotiations commenced based on discussions in February 2003 and proceeded through March 2003.
5. Pural submitted a Final and Best Proposal on 28 April 2003.
6. The source selection board completed the technical evaluation of the final proposal on 20 May 2003.
7. Further negotiation resulted in Pural submitting an updated pricing schedule on 4 June 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative was developed utilizing UPEAST 6.0. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value ($)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				$	%
Government Owned	25	$ 27.299 M	$ 1.749 M		
Contractor Ownership	25	$ 23.326 M	$ 1.494M	$ .255 M	14.6%

Conclusions and Recommendations: Privatization of the Big Island Potable Water Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Big Island Potable Water Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is potable water utility system operation and maintenance to operate and maintain the system.

2. The privatization of the Big Island Potable Water Utility System assures future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable potable water utility services to the sub-posts.