



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

15 OCT 2003

Ryan

Office of the Assistant Secretary

SAF/IEI
1665 Air Force Pentagon
Washington, DC 20330-1665

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman

We are notifying you of the Department of the Air Force's intent to solicit a housing privatization project for 1,018 military family housing units for Hill Air Force Base, Utah, using the Military Housing Privatization Initiative authorities enacted by Section 2801 of the National Defense Authorization Act for Fiscal Year 1996, P.L. 104-106, as amended (codified at 10 U.S.C. 2871 - 2885). The project summary is attached.

The Deputy Under Secretary of Defense (Installations and Environment) concurs with our plan to solicit this project.

The Air Force intends to release the request for proposal no sooner than 30 days after the Congressional notifications. We would appreciate your early approval so that we may proceed with this much-needed project for our military members and their families.

A similar letter has been sent to the Ranking Minority Member of your committee and to the Chairman and Ranking Minority Member of the Senate Armed Services Committee.

Sincerely

A handwritten signature in black ink, appearing to read "Fred W. Kuhn", with a long, sweeping underline.

FRED W. KUHN
Deputy Assistant Secretary of the Air Force
(Installations)

Attachment:
Project Summary

MILITARY HOUSING PRIVATIZATION INITIATIVE AIR FORCE PROJECT SUMMARY

INSTALLATION:

Hill AFB, UT

SCOPE:

The project involves a non-FAR real estate transaction with a Successful Offeror (SO) under which the Government will convey 1,140 existing housing units and lease approximately 305 acres of land divided among four parcels that contain six housing areas (Areas A, B, D, E, F & G) to the developer at closing of the transaction. The purpose of this business venture is for a private entity to finance, plan, design, construct, own, operate, maintain and professionally manage 1,018 housing units providing military families priority access for 50 years.

The SO will demolish 122 housing units, accomplish a major renovation within 6 years of award on 591 units, provide minor renovations within 6 years of award to 420 units, and accept "as is" 7 units that were recently renovated. Within 6 years of the award, 1,018 privatized housing units will be available to military families, consisting of a mixture of two-, three- and four-bedroom duplex and single family units. This project provides housing for both enlisted and officer personnel as it privatizes the entire housing inventory on Hill AFB. Utility systems will be conveyed in Areas D, E, F, and G (994 units), but not in Areas A and B (24 units).

The USAF will competitively solicit and select a developer. It is the responsibility of the SO to arrange the necessary debt financing and equity. The Government participation may include a direct loan of the commercial first mortgage loan. The SO will utilize their equity contribution and the commercial first mortgage loan proceeds before using the Government direct loan in project financing. Leverage for the project is 8.2:1 based on the equivalent MILCON project cost of \$89.4M and the scored cost of \$10.9M. The preliminary economic analysis indicates that privatization is more economical than the MILCON alternative.

The lease will require the substantial renovation or replacement, as required, of all 1018 privatized units no later than 25 years after completion of construction or the last renovation. The modernization shall be an upgrade including, but not limited to, updating the unit functionality and space requirements, integration of new technologies, modernization of the units as a whole including energy efficiencies, electrical and mechanical systems, updating of architectural finishes, kitchen appliances, cabinetry and plumbing fixtures.

The agreement will provide service members the opportunity to occupy quality housing that is safe and affordable. Payment of rent and reasonable utility costs will not exceed the members Basic Allowance for Housing (BAH) under this deal. The service member will pay rent and utilities by monthly allotment in arrears. The rental units will be made available to Air Force families on a preferential basis.

No AAFES, DECA or MWR/Services activities will be affected by this privatization initiative and the land leases will preclude the SO from having any revenue generating activities that compete with AAFES, DECA, or MWR/Services.

AUTHORIZATION:

10 U.S.C. Section 2873, Direct loans and loan guarantees. The government will provide a direct second mortgage loan.

10 U.S.C. Section 2878, Conveyance or lease of existing property and facilities. Housing units will be conveyed and land will be leased to the SO as part of this project.

10 U.S.C. Section 2880, Unit size and type. The housing to be renovated and constructed as part of this project will be similar to that found in the local community.

10 U.S.C. Section 2881, Ancillary supporting facilities. No conflict with AAFES, DeCA or nonappropriated fund activities. Ancillary facilities may include a community center, with an indoor lounge, community rooms, common kitchen, business center, pool complex, and exercise club; playgrounds; athletic fields; bus shelters; and a jogging trail/bike path.

10 U.S.C. Section 2882, Assignment of members of the armed forces to housing units. Military members will pay BAH minus an allowance for utilities to the SO by allotment.

10 U.S.C. Section 2883, Department of Defense Housing Funds. A transfer of appropriated funds to the DoD Family Housing Improvement Fund will be required.

JUSTIFICATION:

This project will provide military families access to safe, quality, affordable housing. Of the 1,140 existing housing units, 591 must be upgraded meet current life-safety codes and to provide a comfortable and appealing living environment for our military families assigned to Hill AFB. The 122 units scheduled for demolition were built in various phases from 1939-1976 and require improvements that exceed 70 per cent of their replacement value or are excess to the installation's requirements. Seven of the housing units have been renovated recently and require no work before conveyance to the developer. The remaining 420 units were built between 1963 and 1976 and require minor renovations to meet the needs of today's military families. This project will complete the required renovation within six years rather than a piecemeal approach inherent in MILCON or other alternatives.

FUNDS REQUIRED:

The preliminary budget scoring analysis developed for OMB indicates a projected credit subsidy or scored cost of \$10.9M due to the proposed direct loan.

SOURCE OF FUNDS:

Fiscal Year	Project Number	Project Location	Amount
2001	KRSM 01-4005	Hill AFB, UT	\$ 10.27 million
2001	SGBP 01-3001	Offutt AFB, NE	\$ 0.63 million
Total			\$ 10.9 million