



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



MAY 26 2004

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, D.C. 20515

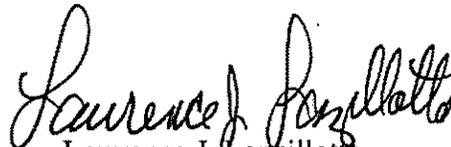
Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$17.6 million of Air Force family housing construction funds into the Department of Defense Family Housing Improvement Fund. Of this amount, \$15.6 million will be used to finance a family housing privatization project at Buckley Air Force Base, Colorado. The remaining \$2 million will be used to finance future Air Force privatization projects.

A description of the proposed project is enclosed. Representatives of the Air Force are available to provide any additional information you or your staff may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional defense committees.

Sincerely,


Lawrence J. Carzillotta
Acting

Enclosure:
As stated

cc: The Honorable Ike Skelton
Ranking Member

MILITARY HOUSING PRIVATIZATION INITIATIVE
AIR FORCE PROJECT SUMMARY

INSTALLATION:

Buckley Air Force Base (AFB), Colorado

SCOPE:

The project involves a real estate transaction with the Successful Offeror (SO) for a private entity to finance, plan, design, and construct new family housing and amenities. The Air Force will purchase 41 acres of land using \$1.9 million of FY 2002 Family Housing Construction funding prior to the execution of the privatization project and lease this land to the SO for a period of 50 years. The SO will construct 351 new homes which they will own, operate, and maintain through the lease period. Additionally, the developer will construct a swimming pool, community center, and bus shelters within the housing development. There is no existing military family housing at Buckley AFB, so there is no demolition or renovation required. The units will be designated for occupancy by E-1 through O-7.

The Air Force competitively solicited the project and selected a developer in November 2003. The total development cost of the project will be \$74 million. The government will provide a \$31.7 million direct second mortgage loan. The credit subsidy scored amount to support the second mortgage loan is \$15.6 million. The total cost of this project to the Air Force will be \$17.5 million which includes the credit subsidy scored amount of \$15.6 million and the \$1.9 million the Air Force will spend to purchase the land prior to the execution of the privatization project. The SO will utilize their equity contribution and private sector commercial loan proceeds before using the direct second mortgage loan in project financing.

The rental units will be made available to Air Force families on a preferential basis. The agreement will provide service members the opportunity to occupy quality housing that is safe and affordable. Their rent will not exceed the Basic Allowance for Housing (BAH) at the dependent rate for the designated military pay grade, minus an amount sufficient to cover 110 percent of average estimated utility costs.

No Army and Air Force Exchange Service (AAFES) or Defense Commissary Agency (DeCA) or Moral Welfare Recreation (MWR) Services activities will be affected by this privatization initiative and the land lease 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 to the SO.

10 U.S.C. Section 2878, Conveyance or lease of existing property and facilities.

Existing Air Force family 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 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 non-appropriated fund activities. Ancillary facilities will 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.

JUSTIFICATION:

This project will provide military families access to safe, quality, affordable housing.

FUNDS REQUIRED:

The total cost of this project to the Air Force will be \$17.5 million which includes the credit subsidy scored amount of \$15.6 million and the \$1.9 million the Air Force will spend to purchase the land prior to the execution of the privatization project. The Air Force plans to transfer \$17.6 million to the FHIF. Of this amount, \$15.6 million will be used to finance a family housing privatization project at Buckley Air Force Base, Colorado. The remaining \$2 million will be used to finance future Air Force privatization projects.

SOURCE OF FUNDS:

The \$11.271 million, which included \$1.9 million for land purchase, authorized and approved in FY 2002 to construct housing at Buckley AFB will be used to execute the privatization project (\$1.9 million for land acquisition and \$9.371 million will be transferred to the FHIF). In addition, \$6.229 million for this project will come from the \$26.955 million authorized and appropriated for a family housing improvement project at Hickam AFB, Hawaii, in FY 2004.

The Air Force is executing a privatization project at a Hickam AFB in FY 2004 that will privatize 1,356 family housing units. The Air Force plans to privatize the remaining family housing units at Hickam AFB and estimates that the credit subsidy scored amount will be zero. The FY 2004 project to renovate 190 units at Hickam AFB will be accomplished as part of the second phase of the Hickam AFB privatization project. Of the remaining \$20.726 million from the FY 2004 Hickam AFB improvement project, \$2 million will be transferred to the FHIF to finance future Air Force privatization projects, \$14.204 million will be transferred to the foreign currency account to pay for funding shortfalls due to foreign currency fluctuations, and \$4.522

million will be used to reimburse the Treasury Department Judgment Fund compromise settlements of claims arising out of Air Force family housing construction projects.

<u>Fiscal Year</u>	<u>Location</u>	<u>Description</u>	<u>Amount</u>
FY 2002	Buckley AFB, CO	Family Housing Construction	\$9,371,000
FY 2004	Hickam AFB, HI	Post Acquisition Construction	<u>\$8,229,000</u>
			\$17,600,000