



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(INSTALLATIONS AND ENVIRONMENT)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

FEB 19 2004

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

Dear Mr. Chairman:

Section 2884 of Title 10, United States Code requires the Military Services to provide advance written notification of the intent to offer a conveyance or lease in conjunction with award of a housing privatization contract. This letter provides notice of the Navy's intent to enter into a limited liability company operating agreement for Navy Region Hawaii Phase I. Details are provided in the enclosed Project Report. The Office of the Secretary of Defense concurs with this notification.

The Committees will be notified separately, by the Office of the Secretary of Defense, of the transfer of funds appropriated for Navy family housing construction into the Family Housing Improvement Fund in conjunction with this project.

Similar letters have been sent to the House and Senate Appropriations Subcommittees on Military Construction and the Senate Armed Services Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Army", written over a circular stamp or mark.

Wayne Army
Deputy Assistant Secretary
(Installations and Facilities)

Enclosure

Copy to:
The Honorable Ike Skelton
Ranking Minority Member

MILITARY HOUSING PRIVATIZATION INITIATIVE
NAVY AND MARINE CORPS IN HAWAII, PHASE I
HOUSING PROJECT REPORT

INSTALLATIONS:

Navy and Marine Corps Installations in Hawaii
Phase I: Navy Region (Oahu), Hawaii

SCOPE:

The purpose of this project is to allow the Department of the Navy (DoN) to work with the private sector to upgrade the quality of housing, and operate and maintain that family housing, in essential areas of need. This project will leverage DoN assets with private investment to accomplish housing goals faster and at lower costs.

This project will result in the DoN's acquisition of interest in a limited liability company, which will design, finance, construct, renovate, own, operate, maintain and professionally manage multiple housing developments.

	Existing Homes Privatized	Homes Demolished	Homes Replaced	Homes Renovated	New MILCON*	End State Homes
Halsey Terrace	503	503	475	0		475
Hokulani	190	2	2	188		190
McGrew Point	140	140	130	0		130
Radford Terrace	418	318	301	0	100	401
Moanalua Terrace	752	0	0	752		752
Project Totals	2,003	963	908	940	100	1,948

*MILCON homes currently under construction and scheduled to be completed prior to closing

All 1,948 end-state homes will be made available to active duty military personnel on a right of first refusal basis at preferential rates. In addition, eight units will be constructed to house management and maintenance personnel on-site.

In addition, the DoN will reserve the right to utilize the business entity to be established via this project to address the privatization of additional family housing at Navy Region Hawaii, Marine Corps Base Hawaii and other installations subject to prior Congressional approval.

In accordance with the authorizing legislation, all homes will be made available to active duty military personnel on a priority basis at preferential rents.

AUTHORIZATION:

In addition to Title 10 USC, Section 2872, General Authority, the following authorities will apply to this program or may be used in the future:

Section 2875,	Investments
Section 2878,	Conveyance or Lease of Existing Property and Facilities
Section 2880,	Unit Size and Type
Section 2881,	Ancillary Supporting Facilities
	Section 2882(c), Lease Payments through Pay Allotments
Section 2883	Department of Defense Housing Funds

SUMMARY OF PROPOSED TERMS FOR AGREEMENT:

A Request for Proposals for this project was issued and a successful offeror was selected for exclusive negotiations via competitive procedures. The DoN is currently finalizing the business agreements.

The 2,003 existing Government-owned homes will be conveyed via transfer of title. Land associated with homes to be conveyed will be leased for a term of 50 years. At the end of the 50-year term, the land will revert to the DoN and the entity will be required to transfer title of all infrastructure and improvements, then existing, to the DoN.

The 908 replacement homes will be safe, high-quality, energy-efficient, three-, four- and five-bedroom, single-family homes and duplexes. The target paygrades are E1 through O5 for the 908 replacement homes, and E1 through E6 for the 1,040 homes, including those to be renovated.

All 1,948 end-state homes will remain available to military families on a first right of refusal basis at preferential rates for the original term of the agreement. Terms of the agreement will ensure that the total rent and normal utilities, combined, does not exceed individual military members' Basic Allowance for Housing (BAH).

In addition to the normal reserve accounts, the agreements executed for this project will include a requirement for the establishment of a reserve account to fund recapitalization (renovations and/or replacement) of homes. This reserve account will be funded via distribution of cash flow from the project. The reserve account will be utilized to maintain the quality of the homes at a high level over the entire term of the agreements.

JUSTIFICATION:

This project will result in the replacement of 908 existing homes that are in disrepair and in need of replacement, and renovations to 940 homes. In future phases, the business entity established via Phase I could be utilized to replace an additional 2,855 existing family homes, and renovate an additional 1,451 homes.

The use of public/private venture authorities will leverage the DoN assets and allow for the replacement and renovation of critically needed homes.

This project will significantly improve the living conditions and quality of life for military families at Navy Region Hawaii and Marine Corps Base Hawaii more rapidly than exclusive reliance on Military Construction.

FUNDS REQUIRED:

Funding in the amount of \$25,000,000 is required for this project.

SOURCE OF FUNDS:

The DoN proposes funding this project utilizing the following project as a source for the cash investment:

<u>FY</u>	<u>Location</u>	<u>Description</u>	<u>Amount</u>
03	Naval Base Pearl Harbor, HI	H-01-03, Pearl Harbor Privatization Phase I	\$25,000,000