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

COMPTROLLER

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AUG 4 2003

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

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer $70.662 million of Department of the Navy family housing construction funds into the Department of Defense Family Housing Improvement Fund (FHIF). The purpose of this transfer is to finance a project to privatize military family housing units at Marine Corps Bases, Camp Pendleton and Quantico; Marine Corps Recruit Depot, San Diego; and Marine Corps Mountain Warfare Training Center, Coleville.

This transfer will fund the Department of the Navy's equity investment, which will provide 4,606 privatized units for military families at these locations.

A description of the proposed project is enclosed. Representatives of the Department of the Navy and the Department of Defense Housing and Competitive Sourcing Office are available to provide any additional information you may desire.

A similar letter is being sent to the Chairmen of the Senate and House Appropriations Subcommittees on Military Construction and the Chairman of the Senate Armed Services Committee.

Sincerely,

Dov S. Zakheim

Enclosure

cc: The Honorable Ike Skelton
Ranking Member

MILITARY HOUSING PRIVATIZATION INITIATIVE
MARINE CORPS BASES, CAMP PENDLETON AND QUANTICO; MARINE CORPS HOUSING COMPLEX, COLEVILLE; AND MARINE CORPS RECRUIT DEPOT, SAN DIEGO
PROJECT REPORT

INSTALLATIONS:

Marine Corps Base (MCB), Camp Pendleton, CA
MCB Quantico, VA
Marine Corps Housing Complex (MCHC), Coleville, CA
Marine Corps Recruit Depot (MCRD), San Diego, CA

SCOPE:

The purpose of this project is to allow the Department of the Navy (DON) to work with the private sector to construct, revitalize, operate, and maintain military family housing at various Marine Corps installations. This project will leverage Marine Corps assets with private investment to accomplish housing goals faster and at lower cost.

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

The following table summarizes the scope of this project:

	Existing Homes Privatized	Homes Demolished	Homes Replaced	Homes Renovated	Additional Homes Constructed	Total Homes
MCB Camp Pendleton	3,203	1,313	1,313	1,790	150	3,353
MCB Quantico	1,414	1,270	993	144	0	1,137
MCHC Colville	111	1	1*	110	0	111
MCRD San Diego	5	0	0	5	0	5
Project Totals	4,733	2,584	2,307	2,049	150	4,606

* Demolish and replaces the home currently located at Marine Corps Mountain Warfare Training Center Bridgeport

All 4,606 end-state homes will be made available to active duty military personnel on a right of first refusal basis.

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 MCB Camp Pendleton, MCB Quantico, and other installations subject to prior congressional approval.

AUTHORIZATION:

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

Section 2872a	Utilities and Services
Section 2875	Investments
Section 2878	Conveyance or Lease of Existing Properties and Facilities
Section 2880	Unit Size and Type
Section 2881	Ancillary Support Facilities
Section 2882(c)	Lease Payments through Allotments
Section 2877	Differential Lease Payments*

*Not anticipated, but may be used in the future

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 4,732 existing Government-owned homes will be conveyed via transfer of title. Land associated with homes to be conveyed and homes to be constructed will be leased for a term of 50 years. At the end of the lease 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 2,307 replacement and 150 deficit reduction homes will be safe, high-quality, energy-efficient, three- and four-bedroom single-family homes and townhouses. The target pay-grades are E1 through O9 for the existing, replacement and deficit reduction homes.

All 4,606 end-state homes will remain available to military families on a first right of refusal basis for the basic agreement term. Terms of the agreement will ensure that the total rent and normal utilities does not exceed individual military members' Basic Allowance for Housing.

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 1,313 homes at MCB Camp Pendleton, 993 homes at MCB Quantico, and 1 home at MCHC Coleville that are in disrepair and in need of replacement. The project will also provide for renovations to 2,049 units at these three locations and MCRD San Diego. In addition, there is a projected deficit of approximately 2,800 suitable homes for families at MCB Camp Pendleton. This project will reduce that deficit by 150 homes.

The use of public/private venture authorities will leverage the Marine Corps assets and allow for the replacement and renovation of critically needed homes, and the construction of new housing reducing the deficit.

This project will significantly improve the living conditions and quality of life for military families at MCB Camp Pendleton, MCB Quantico, MCHC Coleville, and MCRD San Diego more rapidly than exclusive reliance on Military Construction.

FUNDS REQUIRED:

Funding in the amount of $70,662,000 is required for this project.

SOURCE OF FUNDS:

The Marine Corps and Navy propose funding this project using a combination of DON Family Housing Construction and Improvement funds. Funding is available from, construction savings, projects previously authorized and appropriated as seed money for privatization, and from projects originally authorized and appropriated as construction projects that will now be executed using the privatization authorities. The specific projects are as follows:

FY	Location	Description	Amount
Marine Corps:			
2000	Beaufort	Improvements BE-H-9601-R2	$621,000
2001	Beaufort	Improvements BE-H-9601-R2	$61,000
2001	Camp Pendleton	Improvements PE-H-0020-M2	$307,000
2001	Cherry Point	Improvements CP-H-0110-M2	$332,000
2001	Iwakuni	Improvements IW-H-9502-R2	$34,000
2001	Iwakuni	Improvements IW-H-9901-R2	$1,068,000
2001	Iwakuni	Improvements IW-H-0001-R2	$226,000
2001	Iwakuni	Improvements IW-H-9902-R2	$519,000
2001	Iwakuni	Improvements IW-H-0201-R2	$873,000
2001	Parris Island	Improvements PI-H-9602-M2/PI-H-9603-R2	$327,000
2001	29 Palms	Improvements TP-H-701-M2	$1,014,000
2002	Camp Pendleton	Improvements PE-PPV	$14,571,000
2002	Quantico	Construction H-557	$6,921,000
2003	Quantico	Construction H-620	$41,515,000
NA	FHIF Account	Previously Transferred Funds	$1,387,900
Navy			
2000	Pearl Harbor	Construction H-589	$885,100