



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

04 SEP 2003

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

In accordance with section 2688 of Title 10, United States Code, please find attached the economic analyses for the proposed privatization of the water and wastewater collection systems at Bolling Air Force Base, Washington D.C. The analyses demonstrate that the long-term economic benefit of the conveyances exceeds the long-term economic cost, and that the conveyance will reduce the long-term costs to the Air Force for utility services provided by the subject utility systems.

A similar letter has been sent to the Ranking Minority Member of your Committee.

Sincerely

A handwritten signature in black ink, appearing to read "Fred W. Kuhn", written in a cursive style.

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

Attachment:
Bolling Congressional Notification Package

Project Summary Report Privatization of the Bolling AFB, Washington DC Water Distribution System and Wastewater Collection System

Executive Summary: The privatization of the Bolling Air Force Base (AFB) water distribution system and wastewater collection system under the Washington Suburban Sanitary Commission (WSSC) proposal will reduce the Government's cost of water distribution service and wastewater collection service over the 50-year contract term by an estimated \$4,475,000 and \$1,572,000 (Net Present Value) respectively, as compared with the Government's Status Quo (Should Cost) alternative.

Overview of the Utility System:

Description of Existing Water Utility System: The water distribution system at Bolling AFB is generally composed of distribution pipes, valve gates, fire hydrants and backflow devices and applicable electrical controls.

Description of Existing Wastewater Utility System: The wastewater collection system at Bolling AFB is generally composed of collection piping, manholes, final discharge meters, lift stations, supporting emergency generators and electrical controls associated with the lift stations and emergency generator sets.

Description of the government's "Should Cost" estimate: The government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the water distribution and wastewater collection systems. It is based on the number of employees, direct and indirect labor costs, prevailing wage rates, and the equipment and materials used to perform work on water distribution and wastewater collection systems.

Procurement History: The proposed contract type is a utility service type firm fixed-price with price redetermination-prospective contract with a 50-year term. The solicitation provided for proposal evaluation was conducted using best value/source selection procedures. Offerors were evaluated against the following factors: mission capability, past performance, performance risk, socioeconomic commitment (Plan) and price as delineated in the Source Selection Plan.

The government requested formal proposals, which were evaluated in accordance with Section M of the solicitation and the Source Selection Plan. After initial technical, past performance, socioeconomic commitment, price evaluations and negotiations were completed, the DESC Contracting Officer along with the Source Selection Evaluation Team determined that the offers were economical and recommended the water and wastewater utility systems for award to WSSC.

Life Cycle Cost Analysis (LCCA):

Overview: The purpose of the Economic Analysis (EA) is to assess the economic feasibility of privatizing the water distribution and wastewater collection systems at Bolling AFB. Title 10 USC 2688 allows the transfer of ownership of existing Air Force utility systems to private, municipal, regional, district or cooperative utility companies or other entities.

Methodology: This EA was prepared using the USAF Utilities Privatization (UP) Certified Economic Analysis (CEA) Model Version 2.0.1 that was approved for use by SAF/FMC. The model performs a 50-year economic LCCA, comparing the LCCA of the adjusted status quo and privatization alternatives.

Assumptions:

- Federal income taxes are credited to the privatization cash flow if the privatization bidder is required to pay them. The amount of taxes credited is calculated by multiplying the annual privatized cost times the applicable utility rate from the Office of Management and Budget (OMB) Circular No. A-76, Revised Supplemental Handbook, Performance of Commercial Activities, Appendix 4, or AFI 38-203, Commercial Activities program, Attachment 9.
- It is assumed that the contract start will be in fiscal year (FY) 2003.
- The study period chosen is equivalent to the contract period of performance. In accordance with legislative authority, a 50-year contract is being used. Thus the study period of the economic analysis is 50 years.
- Discount rates are published in OMB Circular A-94, Guidelines and Discount Rates for Benefit Cost Analysis of Federal Programs, Appendix

C dated February 2002. Cash flow projections are in current year dollars; therefore, a nominal discount rate was used in the analysis.

- Contract oversight is defined as 5 percent of the privatized Operations and Maintenance (O&M) cost, up to a maximum of \$100,000, including all General and Administrative (G&A) and insurance costs.
- One-time transition cost is defined as 10 percent of the annual privatized O&M cost, up to a maximum of \$50,000.

Government Status Quo/Contractor Proposed Life Cycle Cost Analysis:

Date Generated 1/31/2003 14:51

Version: 2.0.2

Table 1

Bolling: Water Utility System ECONOMIC ANALYSIS REPORT

EXECUTIVE SUMMARY REPORT

PROJECT TITLE	Bolling: Water Utility System
NAME OF BIDDER	Washington Suburban Sanitary Commission (WSSC)
NOMINAL DISCOUNT RATE	5.8%
TYPE OF DISCOUNTING	Middle of Year
PERIOD OF ANALYSIS	50
START YEAR	2001
BASE YEAR	2001
END YEAR	2050
REPORT OUTPUT	Thousands of Current Dollars
PROJECT OBJECTIVE	Evaluate Utility Privatization

SUMMARY OF ANALYSIS

	Present Value (thousands of dollars)
Net Cost Analysis	
Status Quo	10,929
Privatized	6,454
Savings from Privatization	4,475
Ratio SQ/ Privatized Cost	1.69

	Estimated Value (thousands of dollars)
System Value Benchmarks	
Replacement Cost New Less Depreciation (RCNLD)	3,062
Original Cost Less Depreciation (OCLD)	1,142

Table 1

Bolling: Waste Water Utility System ECONOMIC ANALYSIS REPORT

EXECUTIVE SUMMARY REPORT

PROJECT TITLE	Bolling: Waste Water Utility System
NAME OF BIDDER	Washington Suburban Sanitary Commission (WSSC)
NOMINAL DISCOUNT RATE	5.8%
TYPE OF DISCOUNTING	Middle of Year
PERIOD OF ANALYSIS	50
START YEAR	2001
BASE YEAR	2001
END YEAR	2050
REPORT OUTPUT	Thousands of Current Dollars
PROJECT OBJECTIVE	Evaluate Utility Privatization

SUMMARY OF ANALYSIS

	Present Value (thousands of dollars)
Net Cost Analysis	
Status Quo	7,230
Privatized	5,658
Savings from Privatization	1,572
Ratio SQ/ Privatized Cost	1.28
	Estimated Value (thousands of dollars)
System Value Benchmarks	
Replacement Cost New Less Depreciation (RCNLD)	2,897
Original Cost Less Depreciation (OCLD)	1,431

Conclusions and Recommendations: The privatization of the Bolling AFB water distribution and wastewater collection systems under the WSSC proposals appears to be economically viable. Presented below are the study's detailed conclusions and recommendations.

1. The privatization of the Bolling water distribution and wastewater collection systems pursuant to WSSC's proposal will reduce the Installation's cost of water distribution service by an estimated 41 percent and wastewater collection by an estimated 22 percent as compared to the Status Quo (Should Cost) alternative.
2. The potential privatization of Bolling AFB's water distribution and wastewater collection systems will provide for future upgrades and additions, on a timely basis.
3. The potential privatization action will provide a cost-effective means to provide continued safe and reliable water distribution and wastewater collection services to the installation.
4. Privatization of the Bolling AFB water distribution and wastewater collection systems will result in overall lower cost of utility service than continued Government ownership and operation.
5. The Air Force should follow through with the privatization of the Bolling AFB water distribution and wastewater collection systems, under the WSSC proposal.

Executive Summary
Certified Economic Analysis

Utilities Privatization

Bolling Air Force Base, Washington D.C.
Water Distribution System

January 2003

1.0 Executive Summary

INSTALLATION: Bolling AFB

PROJECT TITLE: Privatization of Utility Systems

SCOPE OF PROJECT: Water Distribution System

**ALTERNATIVES
CONSIDERED:**

Adjusted Status Quo. This alternative defines the water utility distribution system, as Government owned, with utility support services coordinated by the Government.

Privatized. This alternative defines the water utility distribution system as privately owned with utility support services coordinated by the owner. Washington Suburban Sanitary Commission (WSSC) is the alternative selected for the privatization alternative.

DISCOUNTED LIFE CYCLE

COSTS OF ALTERNATIVES: A 50-year economic life cycle cost analysis (LCCA) was performed using procedures and models developed by HQ AFCESA and approved by SAF/FM. Privatization of the water system through an award to WSSC would result in a 50-year savings to the government of \$4,475,000. See Table 1 on the following page for the model summary.

A sensitivity analysis also supports privatization. Significant changes in major components of the Status Quo costs do not change the economic decision. See Section 9.0.

COST-BENEFIT ANALYSIS &

DISCUSSION OF BENEFITS: The benefits of privatization are lower maintenance costs for Bolling AFB. The annual payments for service under privatization will result in standard maintenance and repair of the system on a timely basis. Privatization will also free resources for other mission requirements. Additional benefits are discussed in Section 8.

RECOMMENDATION:

The offer by WSSC is lower than the Adjusted Status Quo costs and satisfies the conditions specified in 10 USCC 2688, Utility Systems Conveyance Authority. Therefore, WSSC is eligible for award of the utility distribution system under the terms offered.

Table 1

Bolling: Water Utility System ECONOMIC ANALYSIS REPORT

EXECUTIVE SUMMARY REPORT

PROJECT TITLE	Bolling: Water Utility System
NAME OF BIDDER	Washington Suburban Sanitary Commission (WSSC)
NOMINAL DISCOUNT RATE	5.8%
TYPE OF DISCOUNTING	Middle of Year
PERIOD OF ANALYSIS	50
START YEAR	2001
BASE YEAR	2001
END YEAR	2050
REPORT OUTPUT	Thousands of Current Dollars
PROJECT OBJECTIVE	Evaluate Utility Privatization

SUMMARY OF ANALYSIS

	Present Value (thousands of dollars)
Net Cost Analysis	
Status Quo	10,929
Privatized	6,454
Savings from Privatization	4,475
Ratio SQ/ Privatized Cost	1.69

	Estimated Value (thousands of dollars)
System Value Benchmarks	
Replacement Cost New Less Depreciation (RCNLD)	3,062
Original Cost Less Depreciation (OCLD)	1,142

2.0 Certificate of Satisfactory Economic Analysis

Installation/MAJCOM: Bolling AFB / 11th Wing
Project Title: Bolling AFB Water Utility System Privatization

An economic analysis was prepared for this project using the procedures approved by SAF/FMC (See Appendix I). The following alternatives were considered:

1. Adjusted Status Quo
2. Privatized

Summary of analysis results: See Table 1 and Table 1a.

Certification: This economic analysis follows the instructions in AFI 65-501, *Economic Analysis*, and the procedures in AFMAN 65-506. Significant changes to project scope, major assumptions, or estimated costs will invalidate this certificate and require revision of this analysis.

Coordination at base/installation level:

Base Level Financial Analysis:

Wickie Andreae/11WG/FMX/DSN 224-9366/Date

(Signature)
Wickie C Andreae 13 Mar 03

Coincurrence by Base Civil Engineering Office:

Synthia G. Snyder/11CES/CC/DSN 297-5565/Date

(Signature)
Synthia G Snyder 13 Mar 03

Certification by Base Level FM:

George H. Cole/Acting 11WG/FM/DSN 297-5755/Date

(Signature)
George H. Cole 13 Mar 03

Coordination at MAJCOM Level:

MAJCOM Financial Analysis Office:

Wickie Andreae/11WG/FMX/DSN 224-9366/Date

(Signature)
Wickie C Andreae 13 Mar 03

MAJCOM Civil Engineering Office:

Synthia G. Snyder/11CES/CC/DSN 297-5565/Date

(Signature)
Synthia G Snyder 13 Mar 03

Certification by MAJCOM FM:

George H. Cole/Acting 11WG/FM/DSN 297-5755/Date

(Signature)
George H Cole 13 Mar 03

Coordination at HQ AFCESA:

HQ AFCESA:

Thomas J. Burns/HQ AFCESA/CESC/DSN 523-6263/Date

(Signature)
Thomas J Burns 14 Mar 03

Executive Summary
Certified Economic Analysis

Utilities Privatization

Bolling Air Force Base, Washington D.C.
Wastewater Collection System

January 2003

1.0 Executive Summary

INSTALLATION: Bolling AFB

PROJECT TITLE: Privatization of Utility Systems

SCOPE OF PROJECT: Wastewater Collection System

**ALTERNATIVES
CONSIDERED:**

Adjusted Status Quo. This alternative defines the wastewater utility collection system, as Government owned, with utility support services coordinated by the Government.

Privatized. This alternative defines the wastewater utility collection system as privately owned with utility support services coordinated by the owner. Washington Suburban Sanitary Commission (WSSC) is the alternative selected for the privatization alternative.

DISCOUNTED LIFE CYCLE

COSTS OF ALTERNATIVES: A 50-year economic life cycle cost analysis (LCCA) was performed using procedures and models developed by HQ AFCEA and approved by SAF/FM. Privatization of the wastewater system through an award to WSSC would result in a 50-year savings to the government of \$1,572,000. See Table 1 on the following page for the model summary.

A sensitivity analysis also supports privatization. Significant changes in major components (Operations & Maintenance or Renewal and Replacement) of the Status Quo costs would change the economic decision. See Section 9.0.

COST-BENEFIT ANALYSIS &

DISCUSSION OF BENEFITS: The benefits of privatization are lower maintenance costs for Bolling AFB. The annual payments for service under privatization will result in standard maintenance and repair of the system on a timely basis. Privatization will also free resources for other mission requirements. Additional benefits are discussed in Section 8.

RECOMMENDATION: The offer by WSSC is lower than the Adjusted Status Quo costs and satisfies the conditions specified in 10 USCC 2688, Utility Systems Conveyance Authority. Therefore, WSSC is eligible for award of the Utility collection system under the terms offered.

Table 1

Bolling: Waste Water Utility System ECONOMIC ANALYSIS REPORT

EXECUTIVE SUMMARY REPORT

PROJECT TITLE	Bolling: Waste Water Utility System
NAME OF BIDDER	Washington Suburban Sanitary Commission (WSSC)
NOMINAL DISCOUNT RATE	5.8%
TYPE OF DISCOUNTING	Middle of Year
PERIOD OF ANALYSIS	50
START YEAR	2001
BASE YEAR	2001
END YEAR	2050
REPORT OUTPUT	Thousands of Current Dollars
PROJECT OBJECTIVE	Evaluate Utility Privatization

SUMMARY OF ANALYSIS

	Present Value (thousands of dollars)
Net Cost Analysis	
Status Quo	7,230
Privatized	5,658
Savings from Privatization	1,572
Ratio SQ/ Privatized Cost	1.28

	Estimated Value (thousands of dollars)
System Value Benchmarks	
Replacement Cost New Less Depreciation (RCNLD)	2,897
Original Cost Less Depreciation (OCLD)	1,431