



COMPTROLLER

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



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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 \$10.046 million of Air Force family housing construction improvement funds into the Department of Defense Family Housing Improvement Fund (FHIF). These funds will finance a family housing privatization project at Hickam Air Force Base (AFB), Hawaii, and future Air Force privatization projects at Moody AFB, Dover AFB, and Shaw AFB.

The Air Force will use \$4.2 million to cover the scored cost of providing a \$67.8 million direct second mortgage loan for the Hickam AFB project. The additional \$5.846 million being transferred will be used to fund the future 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,

Dov S. Zakheim

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



MILITARY HOUSING PRIVATIZATION INITIATIVE AIR FORCE PROJECT SUMMARY

INSTALLATION:

Hickam Air Force Base (AFB), Hawaii (HI)

SCOPE:

The project involves a non-Federal Acquisition Regulation (FAR), real estate transaction with the Successful Offeror (SO) under which the Government will convey 1,356 existing housing units and certain associated improvements, and lease approximately 238 acres of land divided among 2 parcels including the Capehart Parcel and Earhart Parcel. In exchange, the SO shall plan, design, develop, renovate, demolish, construct, own, operate, maintain, and manage a rental housing development, including all paving and drainage, as well as any utilities conveyed to or constructed by the developer, for a minimum of 1,356 military families for 50 years. The 1,356 required housing units are referred to as the "privatized units." The privatized units shall consist of the 548 existing units located in Capehart (including 16 units to be demolished), and the 808 units in Earhart (not including 16 units to be constructed new). All privatized units shall be designated for occupancy as Junior or Senior Non Commissioned Officer housing, and rent shall 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% of the estimated average electric charges.

The lease will require the 16 units to be demolished in Capehart and their replacements built in Earhart, the renovation or replacement of 178 units in Capehart and 622 units in Earhart, minor renovation to 186 units in Earhart, and no work on 354 recently renovated units in Capehart. The major renovations or replacements will 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, and updating of architectural finishes, kitchen appliances, cabinetry and plumbing fixtures.

The Air Force competitively solicited for the project and selected a developer on July 17, 2003. The total development cost will be \$302.2 million. The developer will obtain a \$168.0 million private sector commercial loan and the Government will provide a \$67.8 million direct second mortgage loan. The developer's equity contribution is \$16.1 million. The SO utilizes their equity contribution and private sector commercial loan proceeds before using the Government direct loan in project financing. The construction cost for the equivalent Military Construction (MILCON) is \$312.5 million and the total life cycle cost of the MILCON is \$1,136.1 million. The total life cycle cost for this privatization project is \$906.9 million. Leverage for the project is 83.8:1.

The agreement will provide service members with 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 transaction. The service members will pay rent and utilities. The rental units will be made available to Air Force families on a preferential basis.

No Army and Air Force Exchange Service (AAFES), 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 2872a, Utilities and services. The government will provide utilities, fire fighting and protection services, and police protective services.

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. 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. Ancillary support 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. There will be no conflict with AAFES, DeCA or nonappropriated fund activities.

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. The 16 units scheduled for demolition were built in various stages since 1959 and require improvements that exceed 70 percent of their replacement value. The 178 Capehart units were built since 1958 and the 622 Earhart units were built in various stages since 1964 with all requiring major renovation or replacement. A small percentage of these units have minor to moderate structural damage. Minor renovations are needed for 186 Earhart.

FUNDS REQUIRED:

The total scored amount from this solicitation is \$4.2 million, to support the \$67.8 million direct loan. The total funds being transferred at this time is \$10.046 million. The \$5.846 million difference between the scored amount and the amount being transferred will be used to fund future privatization projects at Moody AFB, Dover AFB and Shaw AFB.

SOURCE OF AVAILABLE FUNDS:

<u>Fiscal</u> <u>Year</u>	<u>Location</u>	<u>Description</u>	<u>Amount</u>
2002	Hickam AFB, HI	FH Improvement (HNMD 024450R1)	\$10,046,000