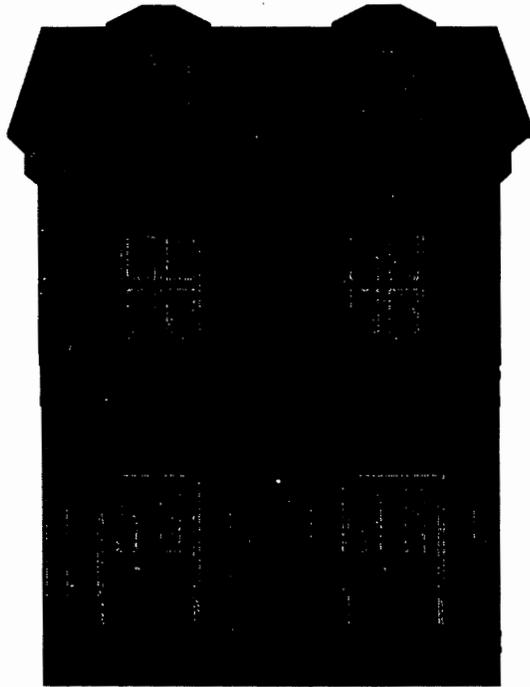




The Private Financing of Military Housing



Housing Revitalization Support Office

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INFORMATION BRIEF

THE PRIVATE FINANCING OF MILITARY HOUSING

"Well-equipped forces have the instruments to win war and forces satisfied with their Quality of Life are motivated to fight." *-Secretary of Defense William J. Perry's Quality of Life Task Force*

President Clinton signed the 1996 Defense Authorization Act, containing the new private financing of military housing initiative, into law Saturday, February 11, 1996. This new law opens the door to new and improved housing for service members and their families.

"The readiness of our forces depends on retaining the high quality, experienced personnel we now have in the military. One of the most important factors in retention of senior personnel is our ability to provide decent and affordable housing for their families to live in. This inadequate housing affects our ability to retain a professional force and degrades our readiness. But the quality of housing has declined for more than 30 years because of a lack of priority and because earlier attempts at solutions have run into regulatory or legislative roadblocks. Therefore, we have prepared this proposal to allow the Department, with the help of Congress and the private sector, to solve a 30-year problem in 10 years."

-Secretary of Defense William J. Perry

Secretary of Defense William J. Perry is determined to implement his Quality of Life initiative. He wants to improve living quarters for U.S. service members and their families, and to maintain high morale and a ready force. So, a little over one year ago, he proposed his private financing of military housing concept to Congress. The result of Secretary Perry's proposal is the 1996 Defense Authorization Act, Public Law 104-106 110 Stat 186 Section 2801. This new law includes a series of powerful authorities to allow the Department to work with the private sector to build and renovate military housing. Secretary Perry's goal is for the Department to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

Housing Problems We Will Solve With Our New Authorities

The Department of Defense (DoD) currently faces two significant housing problems: first, the poor condition of DoD owned housing, and second, a shortage of affordable, quality private housing available to service members and their families.

Today's Military Living In Yesterday's Houses

The first problem is the condition of DoD owned housing. Today's military is living in yesterday's houses. DoD currently owns approximately 900,000 family housing units on and off base. More than 60% of these units need to be renovated or replaced because over the past 30 years, they have not been sufficiently maintained or modernized. Using the traditional military construction approach, it would cost taxpayers nearly \$20 billion and it would take 30-40 years to solve this problem. Furthermore, traditional military construction requires contractors to adhere to military specifications which make projects significantly more costly than building to market standard.

Too Few Units On Base. Too Few Affordable Units Off Base

The DoD policy for family housing is to rely on the private sector to provide suitable housing for service members and their families. The Services should only acquire family housing for those families who can't find suitable housing in the private sector.

This means the majority of service members and their families live in local communities which brings us to our second problem. The majority of service members living in local communities are enlisted personnel whose salaries are at the lower end of the military pay scale. Their salaries make it difficult for them to find quality, affordable housing within a reasonable commuting distance. Some of these communities, located in extremely rural or metropolitan areas, do not have enough affordable, quality rental housing to accommodate our service members and their families.

Information From The Past And Present Will Improve The Future

The quality of existing military housing has been declining for the past three decades. Deployments and family separations have lengthened, out of pocket expenses for service members living in private housing have increased, and demands on military personnel and their families are increasing.

In a recent report, the Secretary of Defense's Quality of Life Task Force confirms these disconcerting trends and warns that readiness and morale are in jeopardy. Continuing to neglect these issues runs the risk of collapsing the force because even the most dedicated service members will decide to leave the service.

"Military people stay in the service because they like being part of something special. They won't stay in long, however, if families aren't treated well."

-General John M. Shalikashvili
Chairman of the Joint Chiefs of Staff

These are the reasons why the new law is so important to the Department, service members and their families, and to American taxpayers.

Powerful New Authorities

The Defense Authorization Act for Fiscal Year 1996 provides the Department with a variety of new authorities which allows us to obtain private sector financing and expertise to improve our housing situation. These authorities are: 1) Guarantees, both loan and rental; 2) Conveyance or lease of existing property and facilities; 3) Differential lease payments; 4) Investments, both limited partnerships and stock/bond ownership; and, 5) Direct Loans. These new authorities can be used individually, or in combination.

1) **Guarantees.** These can be loan or a rental guarantees. We can guarantee mortgage payments, directly or through an intermediary; or, we can provide a limited guarantee against base realignment and closure (BRAC), force reductions, or major deployments. Additionally, the Department can provide guarantees for mortgage insurance. Finally, DoD can guarantee rent and occupancy levels to assure that rental units are occupied to the level specified in the agreement.

2) **Leasing.** The Department may lease family housing units that have either been acquired or are newly constructed. A lease contract may include an operations and maintenance provision. The Department may also provide for an interim lease. Finally, the Department may lease land.

3) **Differential Lease Payment.** This authority allows the Department to pay the difference between negotiated rent and the Basic Allowance for Quarters/Variable Housing Allowance (BAQ/VHA) to make housing available to service members.

4) **Investments.** The Investment authority allows the Department to make investments in non-governmental entities involved in the acquisition and/or construction of family housing and supporting facilities. These investments can be in the form of *Limited Partnerships* for which the Department provides cash, land, and/or facilities as equity. A limited partnership arrangement will operate purely as a private business. DoD will have no part in the management. Although there is no minimum cash contribution for any DoD investment in a project, there is a maximum cash contribution that the Department may offer. The Department may invest a maximum of 33 1/3% of the capital cost of a project. Because all sites and projects are different, and because the Services will each prioritize their own projects, the full 33 1/3% cash contribution may not be needed in each project. However, the Department also has the authority to convey land or buildings as all or part of its investment. If they choose this route, they may not exceed 45% of the total capital cost if land or facilities are conveyed. For projects involving

renovation, replacement, and support facilities, the Department's total equity contribution also may not exceed 45% of a project's capital cost.

As a *Stockholder*, DoD may be involved in management without losing limited liability. DoD could have considerable control over a project if it provides capital through loan, bond or mortgage.

5) **Direct Loans.** The Department may offer a Direct Loan. The title, land, and improvements will remain with the developer.

Other Important Aspects Of This Law

First, it allows developers to build to local standards rather than to costly and time consuming military specifications. Second, it contains a 5 year "Sunset Clause" which means that, if after the fourth year these authorities have not become permanent law, the Department may not enter into any new contract five years after the date of enactment of the National Defense Authorization Act of FY 1996.

Advantages For the Military, Venture Capital Opportunities for the Private Sector

This new housing initiative is the beginning of a mutually beneficial relationship between the Department of Defense and the private sector. For the Department of Defense it will result in the construction of more housing built to market standards, and less expensively than through the Military Construction process. Commercial construction is not only faster and less costly than military construction, but private sector funds will also significantly stretch and leverage the Department's limited housing funds.

There will also be significant venture capital opportunities in Defense housing for developers and financiers in the private sector. It opens the military construction market to a greater number of development firms. It stimulates the economy through increased building activity. And, Defense housing projects could provide a continuous inflow of capital to an investor over a long period of time.

Project Guidelines

The Department wants to allow as much flexibility as possible for developers and financiers to create the best possible proposals. However, we have to start somewhere, so the Department has identified several broad guidelines to give proposers some direction.

First, we want to ensure that our service members and their families are properly housed on and off military installations. Second, we want to leverage our funds with private capital. Third, we believe it is a good idea to involve local governments. They can help with infrastructure, financing, permits, and a knowledge of local developers. Fourth, we want to integrate projects with private sector housing and we want a mix of bedroom sizes. And fifth,

housing projects must be developed within reasonable commuting distance of military installations.

Project Solicitation and Development Process

Because this is a new initiative we are still developing the process, however, we see it working something like this: The Services will nominate sites. A joint team from the Service in charge of the site, the Housing Revitalization Support Office, and private sector experts contracted by the Department, will evaluate the site, identify problems, determine which of our new authorities will best address the problems and issues at the specific site, and draft a Request for Proposal (RFP). The Service may then request qualifications from bidders, and issue to them the RFP. After the RFP is released, the Service may organize a local pre-proposal conference whereby officials may travel to the communities to meet with developers and financiers who may have questions and want to learn more about the process and project specifics. The Service will then review and evaluate the proposals and make a selection.

The contract will be executed, and the developer will obtain final zoning, site plan approval and financing.

We anticipate construction will begin immediately after award. It should take approximately 7-9 months to reach contract award and construction should take an additional 12 months, bringing the total timeline of the housing development process to approximately 21 months from beginning to end. Baring any Environmental or community opposition which may add 18 months to 3 years to this process.

The Housing Revitalization Support Office is coordinating the implementation of the new authorities for each of the Services. Anyone who would like further information about the new housing initiative or about potential sites should contact the :

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MILITARY DEPARTMENT SITE NOMINATIONS TO THE HOUSING REVITALIZATION SUPPORT OFFICE (HRSO)

Initial HRSO site visits in bold.
Unaccompanied projects for later evaluation in italics.

Army

Fort Carson, CO (Colorado Springs)
Fort Hood, TX (Killeen)

Fort Campbell, KY/TN (Clarksville)
Fort Huachuca, AZ (Tuscon)

Fort Bragg, NC (Fayetteville)
Ft. Eustis, VA (Williamsburg)

Fort Sill, OK (Lawton)

Navy

NAS, TX (Corpus Christi)
NTC, CA (San Diego)
NAVSTA, FL (Mayport)
Cheatham Annex, VA (Williamsburg)

NAVSTA, WA (Everett)
San Diego, CA (Cabrillo)
NAVSTA, MS (Pascagoula)
NAVSTA, VA (Norfolk)

NAVSTA, VA (Norfolk)
DoD Westover, MA
NAS, Texas (Corpus Christi)

NTEC, RI (Newport)
Mitchell Complex, NY (L.I.)

Air Force

McChord, WA (Tacoma)
Pope, NC (Fayetteville)
Keesler, MS (Biloxi)
LA AFB, CA (Los Angeles)
Elmendorf, AK (Anchorage)

Lackland, TX (San Antonio)
Elmendorf, AK (Anchorage)
Travis, CA (Oakland)
Malmstrom, MT (Great Falls)

Tinker, OK (Oklahoma City)
Hickham, HI (Honolulu)
Kirtland, NM (Albuquerque)
Barksdale, LA (Shreveport)

Edwards, CA (Rosamond)
Hurlburt, FL (Ft. Walton Beach)
Vandenberg, CA (Santa Barbara)
Patrick, FL (Orlando)

Marine Corps

Camp Pendleton, CA

Kaneohe Bay, HI (Oahu)

MCLB, GA (Albany)

**Hold Until Released
By The Committee**

**MILITARY HOUSING
PRIVATIZATION INITIATIVE**

**Statement of
Robert E. Bayer
Deputy Assistant Secretary of Defense
(Installations)**

**Before the
Subcommittee on Military Installations and Facilities
Of the
House Committee On National Security**

March 7, 1996

**Hold Until Released
By The Committee**

Mr. Chairman and distinguished members of the Subcommittee on Military Installations and Facilities, it is a pleasure to appear before you today to provide you with a status report of the Department of Defense's (DoD) implementation of the Military Housing Privatization Initiative, Title XXVIII, Subtitle A, of the National Defense Authorization Act for Fiscal Year 1996. Before proceeding, Mr. Chairman, I want to acknowledge the leadership and support provided by the Congress in general, and this Committee in particular. Without your personal support, we would not be poised today to launch into a major new process to improve living conditions for our service members and their families. We look forward to your continued support as we test these authorities and learn how to best use them to meet our mutual goal of providing our service men and women with quality living accommodations.

PROBLEM

The quality of life (QoL) of our service members and their families continues to be one of Secretary Perry's highest priorities. Today's service members are a force of volunteers who joined the military for a career, not a two year tour of duty. Over the past three decades, the percentage of military members who are married and the percentage of time they spend deployed away from home have steadily increased, whereas the quality of their housing ... and associated support such as schools, recreation, day care, etc. ... has failed to keep pace.

Secretary Perry recognizes the importance of housing as a key element in the quality of life of our service members and their families. He is determined to improve their living conditions to maintain high morale and a ready force.

His quality of life budget increase last fall was a significant first step. Secretary Perry added \$2.7 Billion over the Future Years Defense Program (FYDP) for several areas of quality of life including quarters allowances, housing maintenance, and recapitalization. As an integral part of this initiative, he chartered the Defense Science Board's Quality of Life Task Force...the Marsh Task Force.

The Task Force members spent several months taking an independent look at the quality of life of service members. Key to this effort was extensive travel and interviews with service members and their families. In its October 1995 report, the Task Force confirmed disconcerting downward trends in perceived quality of life. The panel warned that readiness and morale are in jeopardy. In the panel's view, continuing to neglect these issues risks eroding the force because even the most dedicated service members may leave the service.

The Task Force recommended several ways the Department could improve the quality of life for our service members. One of its top recommendations was to use private expertise and capital to accelerate improvement of government owned housing ... unaccompanied and family housing ... and encourage the development of more affordable housing in local communities. As the Task Force stated, "Well-equipped forces have the instruments to win war and forces satisfied with their quality of life are motivated to fight." It is our job to make sure our forces are satisfied with their quality of life. We know that military deployments require service members' full attention in order to be effective and safe. We want to minimize anxieties about their families during these stressful periods that come all too often in today's world.

The Department currently faces three significant housing problems. First is the condition of DoD owned family housing. Today's military families are living in yesterday's houses. DoD currently houses about 1/3 of our families in over 300,000 government owned family housing units located both on and off base. About 2/3rds of these units need to be renovated or replaced because over the past 30 years, they have not been sufficiently maintained or modernized. Using the traditional military construction approach, it would cost taxpayers nearly \$20 billion to accomplish this task and it would take 30-40 years to solve this problem. Neither the costs nor time lines of the current system of housing construction and modernization meet the challenge we face. We can not afford a "business as usual" approach.

The second problem relates to the other two-thirds of our service families. They live in local communities because of DoD's policy to rely first on the private sector to provide suitable family housing. We do not intend to change this overall strategy. However, we recognize that the majority of service members living in local communities are enlisted personnel whose compensation is at the lower end of the military pay scale. Their income makes it difficult for them to find quality, affordable housing within a reasonable commuting distance. Some of the communities around our installations simply do not have enough affordable, quality rental housing to accommodate our service members.

Finally, our barracks are in desperate need of improvement. Renovation or replacement of barracks is the largest single functional category within the MILCON, and the repair and maintenance (RPM) portion of the Operations and Maintenance (O&M) budget. This resource commitment reflects Secretary Perry's continuing five year commitment to improving the quality of life for single military members. Additional funding by Congress for FY 96 increases both RPM (by \$322 Million) and revitalization of barracks (by \$212 Million). We plan to track these expenditures to ensure that these additional funds are used to improve barracks.

In November, 1995, the Department established the "1+1" standard for new, permanent party barracks construction. This standard prescribes an 11 square meters (118.4 square feet) standard, similar to the design the Army has been using under a waiver for several years. These quarters include two individual living/sleeping rooms with closets, and a shared bath and kitchenette service area. This module will normally house two E1-E4 members or one member E5 and above. Exceptions are approved so a Service can modify this arrangement where mission or overall conditions dictate. This standard is optional for barracks outside the continental United States (CONUS) funded by other than the United States or constrained by site conditions. The Services will begin to phase in adoption of this standard with the FY 96 program.

SOLUTION

The Department is extremely pleased with the broad new authorities provided in the National Defense Authorization Act for Fiscal Year 1996. They will help us attract private capital to solve our housing problems much more quickly. The new authorities in this Military Housing Privatization Initiative permit:

- 1) Guarantees, both for loans and rental occupancy;
- 2) Conveyance or lease of existing property and facilities;
- 3) Differential payments to supplement service members BAQ/VHA;
- 4) Investments, both limited partnerships and stock/bond ownership; and,
- 5) Direct Loans.

These new authorities can be used individually, or in combination. We believe they will allow us to attract private capital and leverage Military Construction (MILCON) dollars by at least 3 to 1. Establishment of the Family Housing Improvement Fund, with its initial appropriation of \$22 Million in Fiscal Year 1996 and transfer authority, provides an effective mechanism to fund the selected projects. We have requested an additional \$20 Million for this purpose in Fiscal Year 1997. As military construction projects are converted to projects financed using the new authorities, we expect to use the MILCON savings to fund additional projects. The notification and reporting requirements in the law provide Congressional visibility, at key steps, as we proceed.

There is no single "magic bullet" to efficiently and economically revitalize our housing stock or encourage the private sector to meet DoD needs. In real estate, one size does not fit all. Each location, each project, and the terms of each deal will vary according to: market conditions, market penetration, land cost and availability, developer capabilities, and our housing renovation or construction requirements. Approaches that work in one location may fail dismally at another. Therefore, the Department needed, and received from you, a "kit bag" of tools and flexibility to take advantage of each installation's and civilian community's unique circumstances.

BENEFITS

I believe this new housing initiative is the beginning of a mutually beneficial relationship between the Department of Defense and the private sector. For the Department, it will result in faster construction of more housing built to market standards. We expect to save substantially compared to the Military Construction alternative process. Commercial construction and operation is not only faster and less costly than military construction, but private sector funds will also significantly stretch and leverage the Department's limited housing resources ... achieving more improved housing from the same funding level.

There will also be significant investment opportunities in Defense housing for developers and financiers in the private sector. The initiative opens the military construction market to a greater number of development firms. It stimulates the economy beyond traditional MILCON investments through increased private sector building activity because we can build more, and, in some cases put more property on local tax roles.

Because DoD wants the private sector to use more of its own funds to build or renovate housing, and to work with us in leveraging our scarce funds, we must plan, program, budget, and execute projects more like a private entity. That is precisely what we are in the process of doing. Based on these new authorities, we are trying to think and act more like private developers.

1996 STRATEGY

Secretary Perry has given his complete support to this new initiative. In October 1995, in anticipation of enactment of these authorities, he established a joint Housing Revitalization Support Office, the HRSO, representing all Services and augmented with consultant support. At his instruction, the office is staffed with 13 full-time housing and real estate experts from each of the Services and the Office of the Secretary of Defense (OSD).

The HRSO serves as a catalyst for our housing modernization efforts and uses consultant assistance to develop “best practices” and a common approach to analyzing private sector proposals. One of its near term goals is to test as many of the authorities as possible. The HRSO is the Department’s focal point of knowledge and expertise necessary to implement this program. It will also manage the Housing Improvement Fund. All relevant information and resources are shared with each of the Services. Together, the HRSO and Services evaluate each initial site; determine which authorities, singly or in combination, will benefit each site; and jointly lead procurement teams that will ultimately negotiate commercial agreements. Ultimately, the Services will use their resources and contracting authority to execute these agreements. Lastly, we plan to gradually incorporate the HRSO authorities into the Service’s housing acquisition process.

The HRSO has developed a site data collection protocol and a financial feasibility model to evaluate proposals for all Services, addressing all kinds of markets and requirements. It has worked with the military departments to prioritize about 40 potential sites, and together with the Services, has selected 14 for initial evaluation. Over the past months members of our staff, along with Service Representatives and DoD consultants, were in the field visiting 11 of these sites. They have accelerated this process, visiting 5 additional sites in the last week. Our target is to have about 8-10 projects with up to 2,000 family housing units awarded within the next year. These projects will serve as prototype sites to test the authorities, validate approaches and ... frankly ... learn how we can take best advantage of these powerful tools.

Two projects, one in Corpus Christi, Texas, and the other in Everett, Washington, have already gone out for bid and the contract awards are pending. As we learn how to efficiently contract with these new authorities, we expect it will take about twenty-one months from the time a site is identified, until families are able to move into the new or renovated housing. This represents a vast improvement over our current military construction process which averages 36-48 months from project definition to beneficial occupancy.

At potential sites our teams visit with a variety of people to get a good portrait of the housing market and opportunities. These people include: military housing personnel, lenders, Community Development Agency staffs, State Housing Finance Agency staffs who could issue bonds and implement publicly supported housing programs, and staff of associations that represent real estate professionals, developers, and property managers. Specifically, these site investigations are used to:

- 1) Inform installation commanders about the new authorities and discuss opportunities to satisfy military housing requirements;
- 2) Open lines of communication with local governments and the business community;
- 3) Gather and verify information about the local housing market and the installation housing situation;
- 4) Identify the nature of and reasons for the local housing shortage; and,
- 5) Determine which authorities, if any, are most relevant and potentially most effective for providing quality, affordable housing for military families.

Site visits also determine major potential obstacles to the government in pursuing development, issues such as financial, organizational, or political risks; or community and neighborhood concerns. The visits also identify how these risks might be mitigated or otherwise overcome to create a viable project. Finally, the site evaluations result in a "go, no-go" recommendation and, if appropriate, provide the foundation for initial solicitation plans.

Although the new authorities are flexible, no single authority is likely to be effective for every housing requirement or market condition. We are working with the Services to decide which authorities are likely to best satisfy specific housing requirements so that solicitations can focus on the avenues likely to achieve best value for the government. On site visits by experts from the public and private sector will determine the least costly tool or tools to best accomplish our goal. In some situations, there may not be a better alternative than traditional MILCON.

For example, each authority has a different cost to the government. When we use the financial feasibility model, we estimate the income that would be generated in the form of service members' rent, and determine whether this sum is enough to cover the cost of construction, maintenance, and financing. We will look at the reasons why the private sector has not met the needs of the military. Is it because the local economy is too dependent on the base and that lenders are fearful of downsizing? If service members' income is enough to cover the cost of the project, the only tool we may need to offer might be a mortgage guarantee against risks associated with base closure. Therefore, we would use our "guarantee" tool, rather than funding up to 45% of the development cost with our "joint partnership" tool. In this particular example, the "guarantee" tool would save the taxpayers' money because the guarantee would be scored as an outlay based upon an anticipated default rate, not on the amount of the mortgage guarantee itself.

Ultimately, the HRSO approach requires a basic cultural change in our own business practices. DoD is working diligently to find our way in this new culture. We are learning how to act more like a commercial entity to take advantage of opportunities when they present themselves. Of course, this is not easy. We are not accustomed to delegating authority and relying on consultants. However, we are beginning to do so. We can succeed, and when we do, the rewards can be enormous. With our new authorities, we are working to remedy our housing deficiencies faster and less expensively than would ever be possible under the traditional military construction process. We appreciate that this new approach has also called for changes in your committee's oversight mechanisms. You have met us half way, and we appreciate that.

CONCERNS

I have three points which I would like to address before I conclude my testimony.

First, we need to maintain at least the same level of Military Construction funding as we are currently receiving. Our primary goal in establishing the Military Housing Privatization Initiative and in developing our new authorities is to solve a 30 year problem in about 10 years within the resource levels currently planned for housing during that 10 year period. This goal is difficult, even with these new authorities, but the more quickly we act, the more quickly we benefit. By acting quickly, we will improve the quality of life of our service members and their

families; the Department will retain more of our quality service members; and that in turn will sustain a ready force while reducing recruiting and training expenses.

We need our current level of funds in order to successfully implement these projects with the private sector. If our current level of funding is not maintained, we will *not* speed the improvement of our housing. Rather, we will more likely solve a 30 year problem in 30 years or longer, because we will limit funds available for the private sector to leverage. Key to Service plans to solve their housing shortfalls is their commitment to continue to program resources at about the Fiscal Year 1996 level of \$784 Million. The Fiscal Year 1997 budget request totals \$734 Million.

Second, as you know, Secretary Perry intends that the privatization tools be applied to solving the serious housing modernization needs of our unaccompanied personnel. While this may prove more challenging, we want to use these authorities to improve our barracks. We are proposing a technical modification to the Appropriations Committees that will allow us to carry out the intent of last year's Authorization Act to apply the privatization authorities to unaccompanied, as well as family housing.

Finally, the Marsh Panel recommended that the Department seriously consider transferring its housing operations to a Military Housing Authority. At Secretary Perry's direction we are determining how we could broaden our current housing privatization "kit bag" and improve our housing situation even more rapidly by enabling each military department or service to create its own Military Housing Corporation. We are examining this option and hope to provide you a legislative proposal in this area in a few weeks.

CONCLUSION

In closing, Mr. Chairman, I thank you and the Committee members for providing me this opportunity to describe our new privatization of military housing program. We will continue to work hard to ensure the success of this program, to access billions of dollars of private capital and the private sector's extraordinary depth of expertise. Together, we will improve the quality of life for hundreds of thousands of service members and their families. This challenge will not be easy, but it is critical, and our troops deserve our best effort. We know that you share these goals, and look I forward to working with you to achieve them. We hope we will continue to receive your strong support, and we are ready to provide whatever details that you may need. This concludes my prepared testimony. I would am happy to answer your questions.

Q&A On Private Sector Solutions To Military Housing

Q: *How important is good housing to retention?*

A: Surveys have indicated that retention is 15% higher at bases with good housing. Also, both SecDef and the Service's Senior Enlisted Advisors report that when they talk to enlisted personnel housing is always one of the top concerns they raise.

Q: *You say soldiers expect a home, does that mean on-base housing?*

A: It does not. In fact, about two-thirds of our service members with families currently live off-base on the economy.

Q: *If the majority of service members are living on the economy, then why don't you divest yourselves of housing altogether and give everyone a housing allowance?*

A: In some locations, there isn't sufficient housing and providing increased allowances alone is not enough to get the housing industry to provide the housing to meet the deficiencies.

Q: *How do you define "substandard"?*

A: Substandard housing can be defined as one or a combination of the following: the unit does not meet contemporary code standards for electrical and/or mechanical systems, and/or for energy efficiency. The unit may be too small, and/or lack amenities. Or, the unit rent could be significantly above BAQ/VHA, or be located outside the Military Housing Area.

Q: *When you say 60% of the housing is substandard, does that include barracks?*

A: No, but our barracks suffer from the same problems of age and dilapidation. In addition, our current barracks do not provide privacy for single service members which is also an important retention issue also.

Q: *How did you calculate \$20 billion and 30 years?*

A: That is a rough estimate based on an average of \$100,000 per unit to renovate or replace 200,000 substandard units at an annual expenditure rate of \$750 million (today's family housing construction funding level).

Q: *Can you provide more information about the private sector approaches used in the 1950's and 1960's?*

A: In the early 1950's, the "Wherry" housing program provided rental guarantees to developers who built houses for DoD use. The "Capehart" program ran from the mid-fifties to the mid-sixties. This program established a government-owned corporation which took out mortgages to build houses which were repaid by the Services.

Q: *Why is commercial construction faster and less expensive?*

A: Government specifications and the procurement process take away flexibility which leads to a more expensive slower product. The governmental acquisition process, while set up to ensure fairness and promote governmental social policies, adds numerous impediments and obstacles that discourage contractors from doing business with the Government. Government standards, such as the mandated sizes of houses, are often out-of-date and do not allow the Government to take advantage of local practices and market conditions. It is these processes and standards that can add as much as 30% to the cost of housing procured with the Department's current method.

Q: *Do you plan to turn on-base housing over to private contractors?*

A: Yes, in some circumstances. Private ownership is key for a number of reasons. If you own a property and are going to be responsible for managing and maintaining it, you are likely to build quality into the product. Ownership also affords the developer the same positive tax treatments that other businesses receive. Ownership, however, won't work everywhere.

Q: *Can you give us examples of guarantees?*

A: The legislation would allow for: mortgage guarantees or insurance: rental guarantees either on occupancy or on gross rents; and contingent guarantees against income losses due to future base closures, drawdowns or deployments. Also included in guarantees are direct loans through the Federal Financing Bank.

Q: *Can these authorities be used in combination?*

A: Yes. Each deal will be site specific. One authority can be used, or two or more can be used in combination. The determination of which and how many of the authorities can or should be used will be based on a specific deal which deal minimizes government risk and investment.

Q: *You said the major problem was dilapidated on-base housing, yet these new authorities seem focused on new construction. Are you going to be able to renovate on base houses?*

A: Yes. Many of these authorities will work for on-base housing. If we can sever the site, we can transfer the land. If not, we can lease the land.

Q: *You mention using private sector standards and practices, how do you plan to do this?*

A: We will rely on the private sector to do the construction and management using their standards and practices. Also, with a parallel effort in procurement reform, the Services are making their contracting processes more efficient.

Q: *If you are going to use private capital, why do you need any taxpayer money at all?*

A: Each of the authorities may require some commitment of DoD funds up front, some more than others. DoD is required to record up front (called budget scoring) the long-term liability of the government. For some authorities like leases that could be a lot, though outlays annual expenditures would be low. For others, like mortgage guarantees, we would only reserve an amount equal to the risk of default on the mortgage.

Q: *Where are you going to test these new authorities?*

A: We haven't chosen the sites yet. When we do, we want them to help solve some of our most critical housing problems. At the same time, we want them to provide us with a variety of circumstances so we can fully test the authorities.

Q: *How are you going to solve a 30 year problem in 10 years if your authority sunsets in 5 years?*

A: We are going to test the authorities in a variety of situations and report to Congress within 4 years on how to permanently codify these authorities.

Q: *What is the Department's strategy to implement this program?*

A: The strategy is to rely on the private sector, wherever possible, to renovate, replace or build new housing. To maximize the leverage of a government investment, this means integrating the military and local civilian housing markets to attract private capital investment. Each Service will set up implementing authority, examine the market place, and where there is need, solicit competitive bids and they will award the contract to whoever provides the best deal for the government.

Q: *Will on-base housing also be open to civilians?*

A: This would be determined on a case-by-case basis. In some instances there may be some security risk, and in those instances, on base housing would not be open to civilians. However, if the military housing located in the center of the military base requires replacement, then the housing should be replaced on land on the fringes of the military base where the civilian and military markets can be integrated without undue security risks.

Q: *What return does the Department want on its investment?*

A: The Department wants a fair return on its equity.

Q: *What is the timeline for a liquidation of the partnership?*

A: A timeline may not be feasible, however, a timeline would be negotiated.

Q: *What is the percentage of the housing units that must be rented to military families versus civilian families?*

A: This will be decided on a case by case, deal by deal basis. Every installation and every community is different.

Q: *Will there still be military construction projects?*

A: MILCON is still an option. It will depend on whether or not these authorities will work. They may not work in every case.

Q: *Can a developer develop more than the Department requirement and use the extra housing to rent commercially?*

A: Yes.

Q: *Will there be restrictions and requirements on the size of the individual units?*

A: No. The size of the unit should be the same size as that being offered to the civilian community whose income is equivalent to the targeted military member.

Q: *Can the housing be separated throughout a community, or must it be contiguous?*

A: The housing can be either individual, or in groupings. This is a good opportunity to merge military with civilian families.

Q: *Can a submission for the number of housing units proposed be too small? For example; if an Installation needs 200 units, can a developer submit a proposal for 25 units?*

A: The request for proposal will identify the range of units allowed. All proposals will be reviewed. The Department will look for the best value.

Q: *Will officers or enlisted personnel live in the facilities?*

A: We want to provide more low-rent housing for our enlisted personnel who have less housing opportunities because they earn less money. However, the units can be made available to any service members who want to live there. Additionally, if the servicemembers don't find the new housing desirable, they don't have to live there.

Q: *How can we be assured timely rental payments?*

A: Rental payments should be handled like any commercial rental contractual agreement with a tenant. Security payments included. Allotment payments may be an option.

Q: *Can the deal include more than one partnership?*

A: Yes. There can be a multi-partnership.

Q: *Can a single developer offer multiple proposals?*

A: Yes. The Department is looking for the best value, the deal that best meets its needs, and the best investment opportunity.

Q: *Can a housing project have multiple rental rates, ie. can civilians be charged higher rent for the units than military personnel?*

A: Yes. Private/civilian tenants can be charged higher rent than military.

Q: ***Will the Department specify rents for 2, 3, and 4 bedroom units?***

A: The Department will negotiate the rents to meet the needs of the military service members for which the project is targeted.

Q: ***Does the Department consider the developer fee to be part of the development cost?***

A: Yes.

Q: ***Are projects subject to Davis-Bacon and other federal requirements?***

A: Yes.

Q: ***Will the Department rank military installations on their likelihood of closure?***

A: No.

1996 Defense Authorization Act
Public Law 104-106 110 Stat 186

Signed by President Clinton on Saturday, February 11, 1996.

One Hundred Fourth Congress

of the

United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Wednesday, the
third day of January, one thousand nine hundred and
ninety-six

S1124 Thurmond S. (R-SC) 01/26/96 (32488 lines)
Enrolled (finally passed both houses)

AN ACT

To authorize appropriations for fiscal year 1996 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe personnel strengths for such fiscal year for the Armed Forces, to reform acquisition laws and information technology management of the Federal Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE XXVIII--GENERAL PROVISIONS

SUBTITLE A--MILITARY HOUSING PRIVATIZATION INITIATIVE

SEC. 2801. ALTERNATIVE AUTHORITY FOR CONSTRUCTION AND IMPROVEMENT OF MILITARY HOUSING.

(a) ALTERNATIVE AUTHORITY TO CONSTRUCT AND IMPROVE MILITARY HOUSING.--(1) Chapter 169 of title 10, United States Code, is amended by adding at the end the following new subchapter:

"SUBCHAPTER IV--ALTERNATIVE AUTHORITY FOR ACQUISITION AND IMPROVEMENT OF MILITARY HOUSING

"Sec.

- "2871. Definitions.
- "2872. General authority.
- "2873. Direct loans and loan guarantees.
- "2874. Leasing of housing to be constructed.
- "2875. Investments in nongovernmental entities.
- "2876. Rental guarantees.
- "2877. Differential lease payments.
- "2878. Conveyance or lease of existing property and facilities.
- "2879. Interim leases.
- "2880. Unit size and type.
- "2881. Ancillary supporting facilities.
- "2882. Assignment of members of the armed forces to housing units.
- "2883. Department of Defense Housing Funds.
- "2884. Reports.
- "2885. Expiration of authority.

"S 2871. Definitions

"In this subchapter:

"(1) The term 'ancillary supporting facilities' means facilities related to military housing units, including child care centers, day care centers, tot lots, community centers, housing offices, dining facilities, unit offices, and other similar facilities for the support of military housing.

"(2) The term 'base closure law' means the following:

"(A) Section 2687 of this title.

"(B) Title II of the Defense Authorization Amendments and Base Closure and Realignment Act (Public Law 100-526; 10 U.S.C. 2687 note).

"(C) The Defense Base Closure and Realignment Act of 1990 (part A of title XXIX of Public Law 101-510; 10 U.S.C. 2687 note).

"(3) The term 'construction' means the construction of military housing units and ancillary supporting facilities or the improvement or rehabilitation of existing units or ancillary supporting facilities.

"(4) The term 'contract' includes any contract, lease, or other agreement entered into under the authority of this subchapter.

"(5) The term 'Fund' means the Department of Defense Family Housing Improvement Fund or the Department of Defense Military Unaccompanied Housing Improvement Fund established under section 2883(a) of this title.

"(6) The term 'military unaccompanied housing' means military housing intended to be occupied by members of the armed forces serving a tour of duty unaccompanied by dependents.

"(7) The term 'United States' includes the Commonwealth of Puerto Rico.

"S 2872. General authority

"In addition to any other authority provided under this chapter for the acquisition or construction of military family housing or military unaccompanied housing, the Secretary concerned may exercise any authority or any combination of authorities provided under this subchapter in order to provide for the acquisition or construction by private persons of the following:

"(1) Family housing units on or near military installations within the United States and its territories and possessions.

"(2) Military unaccompanied housing units on or near such military installations.

"S 2873. Direct loans and loan guarantees

"(a) DIRECT LOANS.--(1) Subject to subsection (c), the Secretary concerned may make direct loans to persons in the private sector in order to provide funds to such persons for the acquisition or construction of housing units that the Secretary determines are suitable for use as military family housing or as military unaccompanied housing.

"(2) The Secretary concerned shall establish such terms and conditions with respect to loans made under this subsection as the Secretary considers appropriate to protect the interests of the United States, including the period and frequency for repayment of such loans and the obligations of the obligors on such loans upon default.

"(b) LOAN GUARANTEES.--(1) Subject to subsection (c), the Secretary concerned may guarantee a loan made to any person in the private sector if the proceeds of the loan are to be used by the person to acquire, or construct housing units that the Secretary determines are suitable for use as military family housing or as military unaccompanied housing.

"(2) The amount of a guarantee on a loan that may be provided under paragraph (1) may not exceed the amount equal to the lesser of-

"(A) the amount equal to 80 percent of the value of the project; or

"(B) the amount of the outstanding principal of the loan.

"(3) The Secretary concerned shall establish such terms and conditions with respect to guarantees of loans under this subsection as the Secretary considers appropriate to protect the interests of the United States, including the rights and obligations of obligors of such loans and the rights and obligations of the United States with respect to such guarantees.

"(c) LIMITATION ON DIRECT LOAN AND GUARANTEE AUTHORITY.--Direct loans and loan guarantees may be made under this section only to the extent that appropriations of budget authority to cover their cost (as defined in section 502(5) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661a(5))) are made in advance, or authority is otherwise provided in appropriation Acts. If such appropriation or other authority is provided, there may be established a financing account (as defined in section 502(7) of such Act (2 U.S.C. 661a(7))), which shall be available for the disbursement of direct loans or payment of claims for payment on loan guarantees under this section and for all other cash flows to and from the Government as a result of direct loans and guarantees made under this section.

"S 2874. Leasing of housing to be constructed

"(a) BUILD AND LEASE AUTHORIZED.--The Secretary concerned may enter into contracts for the lease of military family housing units or military unaccompanied housing units to be constructed under this subchapter.

"(b) LEASE TERMS.--A contract under this section may be for any period that the Secretary concerned determines appropriate and may provide for the owner of the leased property to operate and maintain the property.

"S 2875. Investments in nongovernmental entities

"(a) INVESTMENTS AUTHORIZED.--The Secretary concerned may make investments in nongovernmental entities carrying out projects for the acquisition or construction of housing units suitable for use as military family housing or as military unaccompanied housing.

"(b) FORMS OF INVESTMENT.--An investment under this section may take the form of an acquisition of a limited partnership interest by the United States, a purchase of stock or other equity instruments by the United States, a purchase of bonds or other debt instruments by the United States, or any combination of such forms of investment.

"(c) LIMITATION ON VALUE OF INVESTMENT.--(1) The cash amount of an investment under this section in a nongovernmental entity may not exceed an amount equal to 33 $\frac{1}{3}$ percent of the capital cost (as determined by the Secretary concerned) of the project or projects that the entity proposes to carry out under this section with the investment.

"(2) If the Secretary concerned conveys land or facilities to a nongovernmental entity as all or part of an investment in the entity under this section, the total value of the investment by the Secretary under this section may not exceed an amount equal to 45 percent of the capital cost (as determined by the Secretary) of the project or projects that the entity proposes to carry out under this section with the investment.

"(3) In this subsection, the term 'capital cost', with respect to a project for the acquisition or construction of housing, means the total amount of the costs included in the basis of the housing for Federal income tax purposes.

"(d) COLLATERAL INCENTIVE AGREEMENTS.--The Secretary concerned shall enter into collateral incentive agreements with nongovernmental entities in which the Secretary makes an investment under this section to ensure that a suitable preference will be afforded members of the armed forces and their dependents in the lease or purchase, as the case may be, of a reasonable number of the housing units covered by the investment.

"S 2876. Rental guarantees

"The Secretary concerned may enter into agreements with private persons that acquire or construct military family housing units or military unaccompanied housing units under this subchapter in order to assure--

"(1) the occupancy of such units at levels specified in the agreements; or

"(2) rental income derived from rental of such units at levels specified in the agreements.

"S 2877. Differential lease payments

"Pursuant to an agreement entered into by the Secretary concerned and a private lessor of military family housing or military unaccompanied housing to members of the armed forces, the Secretary may pay the lessor an amount in addition to the rental payments for the housing made by the members as the Secretary determines appropriate to encourage the lessor to make the housing available to members of the armed forces as military family housing or as military unaccompanied housing.

"S 2878. Conveyance or lease of existing property and facilities

"(a) CONVEYANCE OR LEASE AUTHORIZED.--The Secretary concerned may convey or lease property or facilities (including ancillary supporting facilities) to private persons for purposes of using the proceeds of such conveyance or lease to carry out activities under this subchapter.

"(b) INAPPLICABILITY TO PROPERTY AT INSTALLATION APPROVED FOR CLOSURE.--The authority of this section does not apply to property

or facilities located on or near a military installation approved for closure under a base closure law.

"(c) TERMS AND CONDITIONS.--(1) The conveyance or lease of property or facilities under this section shall be for such consideration and upon such terms and conditions as the Secretary concerned considers appropriate for the purposes of this subchapter and to protect the interests of the United States.

"(2) As part or all of the consideration for a conveyance or lease under this section, the purchaser or lessor (as the case may be) shall enter into an agreement with the Secretary to ensure that a suitable preference will be afforded members of the armed forces and their dependents in the lease or sublease of a reasonable number of the housing units covered by the conveyance or lease, as the case may be, or in the lease of other suitable housing units made available by the purchaser or lessee.

"(d) INAPPLICABILITY OF CERTAIN PROPERTY MANAGEMENT LAWS.--The conveyance or lease of property or facilities under this section shall not be subject to the following provisions of law:

"(1) Section 2667 of this title.

"(2) The Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 et seq.).

"(3) Section 321 of the Act of June 30, 1932 (commonly known as the Economy Act) (40 U.S.C. 303b).

"(4) Section 501 of the Stewart B. McKinney Homeless Assistance Act (42 U.S.C. 11401).

"S 2879. Interim leases

"Pending completion of a project to acquire or construct military family housing units or military unaccompanied housing units under this subchapter, the Secretary concerned may provide for the interim lease of such units of the project as are complete. The term of a lease under this section may not extend beyond the date of the completion of the project concerned.

"S 2880. Unit size and type

"(a) CONFORMITY WITH SIMILAR HOUSING UNITS IN LOCALE.--The Secretary concerned shall ensure that the room patterns and floor areas of military family housing units and military unaccompanied housing units acquired or constructed under this subchapter are generally comparable to the room patterns and floor areas of similar housing units in the locality concerned.

"(b) INAPPLICABILITY OF LIMITATIONS ON SPACE BY PAY GRADE.--(1) Section 2826 of this title shall not apply to military family housing units acquired or constructed under this subchapter.

"(2) The regulations prescribed under section 2856 of this title shall not apply to any military unaccompanied housing unit acquired or constructed under this subchapter unless the unit is

located on a military installation..

"S 2881. Ancillary supporting facilities

"Any project for the acquisition or construction of military family housing units or military unaccompanied housing units under this subchapter may include the acquisition or construction of ancillary supporting facilities for the housing units concerned.

"S 2882. Assignment of members of the armed forces to housing units

"(a) IN GENERAL.--The Secretary concerned may assign members of the armed forces to housing units acquired or constructed under this subchapter.

"(b) EFFECT OF CERTAIN ASSIGNMENTS ON ENTITLEMENT TO HOUSING ALLOWANCES.--(1) Except as provided in paragraph (2), housing referred to in subsection (a) shall be considered as quarters of the United States or a housing facility under the jurisdiction of a uniformed service for purposes of section 403(b) of title 37.

"(2) A member of the armed forces who is assigned in accordance with subsection (a) to a housing unit not owned or leased by the United States shall be entitled to a basic allowance for quarters under section 403 of title 37 and, if in a high housing cost area, a variable housing allowance under section 403a of that title.

"(c) LEASE PAYMENTS THROUGH PAY ALLOTMENTS.--The Secretary concerned may require members of the armed forces who lease housing in housing units acquired or constructed under this subchapter to make lease payments for such housing pursuant to allotments of the pay of such members under section 701 of title 37.

"S 2883. Department of Defense Housing Funds

"(a) ESTABLISHMENT.--There are hereby established on the books of the Treasury the following accounts:

"(1) The Department of Defense Family Housing Improvement Fund.

"(2) The Department of Defense Military Unaccompanied Housing Improvement Fund.

"(b) COMMINGLING OF FUNDS PROHIBITED.--(1) The Secretary of Defense shall administer each Fund separately.

"(2) Amounts in the Department of Defense Family Housing Improvement Fund may be used only to carry out activities under this subchapter with respect to military family housing.

"(3) Amounts in the Department of Defense Military Unaccompanied Housing Improvement Fund may be used only to carry out activities under this subchapter with respect to military unaccompanied housing.

"(c) CREDITS TO FUNDS.--(1) There shall be credited to the Department of Defense Family Housing Improvement Fund the following:

"(A) Amounts authorized for and appropriated to that Fund.

"(B) Subject to subsection (f), any amounts that the Secretary of Defense transfers, in such amounts as provided in appropriation Acts, to that Fund from amounts authorized and appropriated to the Department of Defense for the acquisition or construction of military family housing.

"(C) Proceeds from the conveyance or lease of property or facilities under section 2878 of this title for the purpose of carrying out activities under this subchapter with respect to military family housing.

"(D) Income derived from any activities under this subchapter with respect to military family housing, including interest on loans made under section 2873 of this title, income and gains realized from investments under section 2875 of this title, and any return of capital invested as part of such investments.

"(2) There shall be credited to the Department of Defense Military Unaccompanied Housing Improvement Fund the following:

"(A) Amounts authorized for and appropriated to that Fund.

"(B) Subject to subsection (f), any amounts that the Secretary of Defense transfers, in such amounts as provided in appropriation Acts, to that Fund from amounts authorized and appropriated to the Department of Defense for the acquisition or construction of military unaccompanied housing.

"(C) Proceeds from the conveyance or lease of property or facilities under section 2878 of this title for the purpose of carrying out activities under this subchapter with respect to military unaccompanied housing.

"(D) Income derived from any activities under this subchapter with respect to military unaccompanied housing, including interest on loans made under section 2873 of this title, income and gains realized from investments under section 2875 of this title, and any return of capital invested as part of such investments.

"(d) USE OF AMOUNTS IN FUNDS.--(1) In such amounts as provided in appropriation Acts and except as provided in subsection (e), the Secretary of Defense may use amounts in the Department of Defense Family Housing Improvement Fund to carry out activities under this subchapter with respect to military family housing, including activities required in connection with the planning, execution, and administration of contracts entered into under the authority of this subchapter.

"(2) In such amounts as provided in appropriation Acts and except as provided in subsection (e), the Secretary of Defense may use amounts in the Department of Defense Military Unaccompanied Housing Improvement Fund to carry out activities under this subchapter with respect to military unaccompanied housing, including activities required in connection with the planning, execution, and administration of contracts entered into under the authority of this

subchapter.

"(3) Amounts made available under this subsection shall remain available until expended. The Secretary of Defense may transfer amounts made available under this subsection to the Secretaries of the military departments to permit such Secretaries to carry out the activities for which such amounts may be used.

"(e) LIMITATION ON OBLIGATIONS.--The Secretary may not incur an obligation under a contract or other agreement entered into under this subchapter in excess of the unobligated balance, at the time the contract is entered into, of the Fund required to be used to satisfy the obligation.

"(f) NOTIFICATION REQUIRED FOR TRANSFERS.--A transfer of appropriated amounts to a Fund under paragraph (1)(B) or (2)(B) of subsection (c) may be made only after the end of the 30-day period beginning on the date the Secretary of Defense submits written notice of, and justification for, the transfer to the appropriate committees of Congress.

"(g) LIMITATION ON AMOUNT OF BUDGET AUTHORITY.--The total value in budget authority of all contracts and investments undertaken using the authorities provided in this subchapter shall not exceed--

"(1) \$850,000,000 for the acquisition or construction of military family housing; and

"(2) \$150,000,000 for the acquisition or construction of military unaccompanied housing.

"S 2884. Reports

"(a) PROJECT REPORTS.--(1) The Secretary of Defense shall transmit to the appropriate committees of Congress a report describing--

"(A) each contract for the acquisition or construction of family housing units or unaccompanied housing units that the Secretary proposes to solicit under this subchapter; and

"(B) each conveyance or lease proposed under section 2878 of this title.

"(2) The report shall describe the proposed contract, conveyance, or lease and the intended method of participation of the United States in the contract, conveyance, or lease and provide a justification of such method of participation. The report shall be submitted not later than 30 days before the date on which the Secretary issues the contract solicitation or offers the conveyance or lease.

"(b) ANNUAL REPORTS.--The Secretary of Defense shall include each year in the materials that the Secretary submits to Congress in support of the budget submitted by the President pursuant to section 1105 of title 31 the following:

"(1) A report on the expenditures and receipts during the preceding fiscal year covering the Funds established under

section 2883 of this title.

"(2) A methodology for evaluating the extent and effectiveness of the use of the authorities under this subchapter during such preceding fiscal year.

"(3) A description of the objectives of the Department of Defense for providing military family housing and military unaccompanied housing for members of the armed forces.

"S 2885. Expiration of authority

"The authority to enter into a contract under this subchapter shall expire five years after the date of the enactment of the National Defense Authorization Act for Fiscal Year 1996."

(2) The table of subchapters at the beginning of such chapter is amended by inserting after the item relating to subchapter III the following new item:

"IV. Alternative Authority for Acquisition and Improvement of Military Housing 2871".

(b) FINAL REPORT.--Not later than March 1, 2000, the Secretary of Defense shall submit to the congressional defense committees a report on the use by the Secretary of Defense and the Secretaries of the military departments of the authorities provided by subchapter IV of chapter 169 of title 10, United States Code, as added by subsection (a). The report shall assess the effectiveness of such authority in providing for the construction and improvement of military family housing and military unaccompanied housing.



NEWS RELEASE

OFFICE OF ASSISTANT SECRETARY OF DEFENSE
(PUBLIC AFFAIRS)

WASHINGTON, D.C. - 20301

PLEASE NOTE DATE

IMMEDIATE RELEASE

May 8, 1995

No. 246-95

(703)695-0192(media)

(703)697-3189(copies)

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DOD PROPOSES PRIVATE CAPITAL TO IMPROVE MILITARY HOUSING

Secretary of Defense William J. Perry today announced an innovative legislative proposal to improve housing for U. S. military men and women and their families. The proposal recommends using a variety of private sector approaches to build and renovate military family housing faster and at less cost to American taxpayers. The proposal is part of Secretary Perry's Quality of Life initiative announced last November.

"The readiness of our forces depends on retaining the high quality, experienced personnel we now have in the military. One of the most important factors in retention of senior personnel is our ability to provide decent and affordable housing for their families to live in. This inadequate housing affects our ability to retain a professional force and degrades our readiness. But the quality of housing has declined for more than 30 years because of a lack of priority and because earlier attempts at solutions have run into regulatory or legislative roadblocks. Therefore, we have prepared this proposal to allow the Department, with the help of Congress and the private sector, to solve a 30-year problem in 10 years," said Perry in a Pentagon press conference.

The DoD proposal attempts to use market forces to help solve its housing problem. Engaging the private sector for capital and development allows DoD to leverage government dollars and make efficient use of limited resources. Using modified and new private financing tools and commercial standards and practices will help drive down the cost of quality housing while accelerating the solution from 30 to about 10 years.

The proposal includes measures to encourage upfront renovation or construction using non-government funding. In exchange for such development the DoD will be able to: guarantee rentals or mortgages; make fixed payment commitments, such as leases; or co-invest with developers (land and/or cash) to gain access to housing through means such as limited partnerships. Using these tools in combination provides flexibility to speed the improvement of housing projects at less cost and reduces the risk for potential investors.

-MORE-

The proposal covers a five-year test period with expenditures under this program capped at \$1 billion over that period. The pilot program includes all Services and applies to bases where there is an immediate housing problem. The Secretary will report to the Congress each contract under this program. Additionally, he will submit an annual report on the use of the Housing Fund and within four years, make a recommendation on permanent authorities.

"Over the past 30 to 40 years, military housing has not kept pace with needs, leading to unacceptable housing for many of our men and women in uniform and their families. This proposal gives us the flexibility to provide for our forces by building more housing or by renovating existing housing sooner and at a much lower cost to the taxpayer. This will begin as a carefully controlled test of a variety of innovative housing programs, with the objective of identifying the most effective approaches. The best approaches will then be institutionalized to avoid this problem in the future," concluded Perry.

-END-

1996 Defense Authorization Act
Public Law 104-106 110 Stat 186

Signed by President Clinton on Saturday, February 11, 1996.

SEC. 2822. PILOT PROGRAM TO PROVIDE INTEREST RATE BUY DOWN
AUTHORITY ON LOANS FOR HOUSING WITHIN HOUSING SHORTAGE
AREAS AT MILITARY INSTALLATIONS.

(a) SHORT TITLE.--This section may be cited as the "Military Housing Assistance Act of 1995".

(b) MORTGAGE ASSISTANCE PAYMENT AUTHORITY OF THE SECRETARY OF VETERANS AFFAIRS.--(1) Chapter 37 of title 38, United States Code, is amended by inserting after section 3707 the following:

"S 3708. Authority to buy down interest rates: pilot program

"(a) In order to enable the purchase of housing in areas where the supply of suitable military housing is inadequate, the Secretary may conduct a pilot program under which the Secretary may make periodic or lump sum assistance payments on behalf of an eligible veteran for the purpose of buying down the interest rate on a loan to that veteran that is guaranteed under this chapter for a purpose described in paragraph (1), (6), or (10) of section 3710(a) of this title.

"(b) An individual is an eligible veteran for the purposes of this section if--

"(1) the individual is a veteran, as defined in section 3701(b)(4) of this title;

"(2) the individual submits an application for a loan guaranteed under this chapter within one year of an assignment of the individual to duty at a military installation in the United States designated by the Secretary of Defense as a housing shortage area;

"(3) at the time the loan referred to in subsection (a) is made, the individual is an enlisted member, warrant officer, or an officer (other than a warrant officer) at a pay grade of O-3 or below;

"(4) the individual has not previously used any of the individual's entitlement to housing loan benefits under this chapter; and

"(5) the individual receives comprehensive prepurchase counseling from the Secretary (or the designee of the Secretary) before making application for a loan guaranteed under this chapter.

"(c) Loans with respect to which the Secretary may exercise the buy down authority under subsection (a) shall--

"(1) provide for a buy down period of not more than three years in duration;

"(2) specify the maximum and likely amounts of increases in mortgage payments that the loans would require; and

"(3) be subject to such other terms and conditions as the Secretary may prescribe by regulation.

"(d) The Secretary shall promulgate underwriting standards for loans for which the interest rate assistance payments may be made

under subsection (a). Such standards shall be based on the interest rate for the second year of the loan.

"(e) The Secretary or lender shall provide comprehensive prepurchase counseling to eligible veterans explaining the features of interest rate buy downs under subsection (a), including a hypothetical payment schedule that displays the increases in monthly payments to the mortgagor over the first five years of the mortgage term. For the purposes of this subsection, the Secretary may assign personnel to military installations referred to in subsection (b) (2).

"(f) There is authorized to be appropriated \$3,000,000 annually to carry out this section.

"(g) The Secretary may not guarantee a loan under this chapter after September 30, 1998, on which the Secretary is obligated to make payments under this section."

(2) The table of sections at the beginning of chapter 37 of title 38, United States Code, is amended by inserting after the item relating to section 3707 to following new item:

"3708. Authority to buy down interest rates: pilot program."

(c) AUTHORITY OF SECRETARY OF DEFENSE.--

(1) REIMBURSEMENT FOR BUY DOWN COSTS.--The Secretary of Defense shall reimburse the Secretary of Veterans Affairs for amounts paid by the Secretary of Veterans Affairs to mortgagees under section 3708 of title 38, United States Code, as added by subsection (b).

(2) DESIGNATION OF HOUSING SHORTAGE AREAS.--For purposes of section 3708 of title 38, United States Code, the Secretary of Defense may designate as a housing shortage area a military installation in the United States at which the Secretary determines there is a shortage of suitable housing to meet the military family needs of members of the Armed Forces and the dependents of such members.

(3) REPORT.--Not later than March 30, 1998, the Secretary shall submit to Congress a report regarding the effectiveness of the authority provided in section 3708 of title 38, United States Code, in ensuring that members of the Armed Forces and their dependents have access to suitable housing. The report shall include the recommendations of the Secretary regarding whether the authority provided in this subsection should be extended beyond the date specified in paragraph (5).

(4) EARMARK.--Of the amount provided in section 2405(a)(11)(B), \$10,000,000 for fiscal year 1996 shall be available to carry out this subsection.

(5) SUNSET.--This subsection shall not apply with respect to housing loans guaranteed after September 30, 1998, for which assistance payments are paid under section 3708 of title 38, United States Code.