NAID AN ASSOCIATION OF DEFENSE COMMUNITIES

January 2005

PROFILES

in Privatization & Facility Cost Reduction

John E. Lynch, Editor

NAID*infoseries*

NAID AN ASSOCIATION OF DEFENSE COMMUNITIES

NAID, An Association of Defense Communities (NAID/ADC) is the nation's leading organization supporting communities with active, closed and closing defense installations. NAID/ADC unites the diverse interests of communities, the private sector and the military on issues of mission enhancement/realignment, community-base partnerships, privatization, and closure/redevelopment.

SUPPORT

For close to 30 years, NAID/ADC has been the voice of communities dealing with the challenges and opportunties of active and closed military installations. It's an organization built on support found through one-on-one interaction at conferences, timely updates in our weekly newsletter, and the unique online resources.

KNOWLEDGE

For defense communities, understanding the complex and important issues they must face is not an easy task. At NAID/ADC we know the importance of learning and the opportunity that creates. Our comprehensive approach to increasing the knowledge of our members includes two major conferences – both packed full of hundreds of sessions -- a highly regarded library of original publications, and a just-a-call away clearinghouse of information ready for your access.

EXPERIENCE

Our membership and leadership are not just the top experts in their profession, in many instances they set the standard for the field. From community leaders to retired military officers, attorneys, environmental experts, and engineers, NAID/ADC is the place where the best minds on defense community issues come together.

For more information on NAID/ADC, go online to www.defensecommunities.org

TABLE OF CONTENTS

INTRODUCTION

By John Lynch

These profiles in privatization and facility cost reduction were prompted by the interest of so many communities across the country in strengthening defense missions and military bases affecting their communities. At the same time, the lack of budgetary resources during the late 1980s and 1990s compelled many federal agencies — including the Department of Defense (DOD) and the military departments — to look to their real estate and facilities for the first time as possible revenue-generating assets to help meet agency mission needs.

More recently, there have been several new legislative initiatives for enhanced-use leases and efficient facility initiatives. But at the same time, there have been few practical guides available to communities on how to structure their new privatization or cost-cutting proposals.

For this reason, this revision to the initial August 2002 NAID*infoseries* publication will allow 27 community and business practitioners to describe in their own words the practical public entrepreneurial steps they have taken to:

- Provide municipal services to nearby federal activities at substantial cost savings to the federal agencies;
- Use the inherent value in "unused" federal real estate to attract new private sector investment that also helps sustain long-term military or federal agency missions;
- Allow for the least-cost, joint use of common utility systems, airfields, and other public facilities to serve both the community and the federal activities;
- Provide affordable housing and mortgage assistance to military families on the same basis as other resident local families; and
- Strengthen and sustain nearby military and federal activities as important regional economic assets for the community.

Below is an overview of each chapter, grouped into six general parts.

Part I: Municipal Services at Federal Facilities

In Chapter 1, Fred Meurer describes the initiatives by the cities of Monterey and Seaside, Calif., supported by special legislation, to provide the full range of municipal and public works services to the Defense Language Institute at the Presidio of Monterey — with a resulting 41 percent savings in annual operations and maintenance costs to the Army. The two cities also are providing a similar range of municipal services to the nearby Naval Postgraduate School at Monterey.

The location of the 24th Infantry Division (Mechanized) at Fort Stewart, near Hinesville and Liberty County, during the mid-1970s imposed a heavy infrastructure and affordable housing burden on this rural southeast Georgia community. Mayor Tom Ratcliffe and Billy Edwards have summarized in Chapter 2 the "Community of One" planning efforts by the fort and the city. This joint planning effort includes a $25 million joint sewer treatment facility, joint fire assistance, a new $11 million distance advanced learning center in cooperation with the state, joint civilian use of Wright Army Airfield, a utility deposit clearinghouse for military families, and joint use library and museum facilities.

In Chapter 3, Dr. John Deegan and Cathy Williams describe the initiative by the Bellevue (Neb.) Public School District to construct and operate a new joint $8.3 million welcome center and activity center serving military families at Offutt Air Force Base near Omaha. In addition to introducing new students to the Bellevue school system, the activity center provides a full range of athletic and family services such as basketball, volleyball, soccer, batting cages, a swimming pool, jogging/walking track, an area for large banquets and pub-

John Lynch is with the Spectrum Group. He can be reached at jelynch@aol.com.

lic meetings, as well as employment counseling services for spouses.

One of the most successful community-base partnerships over the past two decades has involved Enid, Okla., and Vance Air Force Base. Michael Cooper has summarized in Chapter 4 Enid's efforts to reserve affordable housing for military personnel, donate additional buffer land adjoining the base entrance, provide educational scholarships for military personnel, approve a new $27.6 million education bond issue for strengthening the on-base and area schools, and strengthen the community's land use-environmental safeguards on behalf of Vance AFB.

The most serious threat facing Belle Chasse Naval Air Station/Joint Reserve Base has been the lack of suitable local primary education for the children of its assigned military personnel. To address this urgent need, the state of Louisiana and Plaquemines Parish were able to secure special state authorizing legislation in 2000 for the creation of the Belle Chasse Academy. Jane Fitzgerald Dye, the school's principal, describes in Chapter 5 the emergence of this new charter school with 860 students and its award-winning academic performance, all acheived within two years.

Part II: Real Estate & Facilities – Early Precedent Projects

In Chapter 6, Dan Cosgrove traces the early DOD privatization initiatives, beginning in 1984 and 1985, to provide affordable housing at Fort Ord in Monterey, Calif., and across the country, by extending the existing DOD real estate leasing authority in 10 USC 2667. This long-term leasing approach for non-excess DOD land was then adopted for a new Massachusetts Institute of Technology/Lincoln Laboratories modernization facility on behalf of the Air Force and subsequently, and even more extensively, by the U.S. Department of Veterans Affairs (VA).

Jacqueline Rogers then describes, in greater depth in Chapter 7, the successful Bronson Park affordable housing project that helped respond to the housing crisis at Fort Ord.

David Woodbury analyzes the modernization and expansion program at MIT/Lincoln Labs in Chapter 8. This project encompassed the construction of a 490,000-square-foot research facility, a 900-car parking garage, and the requisite site preparation and utilities to serve the new research facility. The project was based on a long-term 10 USC 2667 facility leaseback from MIT, and the value of the non-excess real estate at Hanscom AFB outside Boston.

The most extensive federal government application of enhanced-use leasing is being conducted by the VA, summarized by Tony Kushnir and Michael Simmons in Chapter 9. The VA enhanced-use leasing authority permits the agency to approve real estate leases for up to 75 years as well as VA "minor construction" contributions of up to $4 million into any individual privatization project. The leased property may be developed for non-VA and/or VA uses. In return for the lease, the department obtains "fair consideration" in the form of revenue, facilities, space, services, money or other consideration.

The remarkable privatization-in-place at the Newark AFB Metrology & Calibration Center in Heath, Ohio, is described by four directly affected community and Air Force authors in Chapter 10. The Licking County Port Authority has taken title to the center, and the successful private sector Bionetics Corp. bidder for the Air Force workload has preserved the 940 technical jobs at the center. A recent Port Authority investment in additional property has turned the 69-acre facility into a 350-acre business campus with six top DOD and aerospace contractors and $200 million in local economic benefits.

In Chapter 11, Michael Sargent reflects on the eight years of privatization experience at the former Naval Air Warfare Center (NAWC) in Indianapolis. The center was a candidate for closure in the 1995 BRAC, but the city offered instead to privatize the facility, thereby avoiding turbulence to the existing Navy avionics workload. The NAWC effort is an example of how privatization can produce needed cost savings for DOD, while still retaining a valuable employment base in the local economy.

The National Park Service's (NPS) historic preservation program for Fort Hancock at Sandy Hook, N.J., near the entrance to New York Harbor, is described by Jacqueline Rogers in Chapter 12. The reinvestment package – financed in part by the Historic Preservation Tax Credit – is expected to exceed $65 million, making it the largest NPS historic leasing project to date.

Part III: Real Estate & Facilities – Recent Development Initiatives

In Chapter 13, Mark Frye summarizes the cooperative efforts of the city of San Antonio and the Air Force to build public-public and public-private partnerships as an important step toward reducing facility and operating costs at Brooks AFB. Special federal legislation was approved in the FY 2000 and 2001 National Defense Authorization acts for what became known as the Brooks City-Base. The city — as the property landlord — will be allowed to manage, lease and sell real property at Brooks AFB. The net proceeds from the Brooks real estate transaction will benefit the Air Force in terms of reduced operating costs and new facilities on base, valued jointly at about $64.2 million.

In a creative economic development initiative for the rural Ozark region, Fort Leonard Wood has leased 62 acres to the University of Missouri at Rolla for 33 years, with an option to extend the lease another 33 years. As discussed by Ron Selfors in Chapter 14, a one-story, multi-tenant building with 18,000 square feet of office, laboratory and classroom space has been built, aimed at technology-based companies that will do business with the Army schools and laboratories at the fort. The university plans to develop more than 100,000 square feet for multi-tenant leases, and lease portions of the land for tenant development of another 300,000 square feet in structures. As the industrial park builds out, the income stream to the Army from the ground lease would support most, if not all, of the cost for the Army to lease a new industrial operations facility within the park.

Chapter 15, compiled by Kurt Haglund, describes the Army Reserve's initiative to develop the Camp Parks Reserve training area — a sprawling 2,300-acre training installation situated in the hill country east of Oakland, Calif. The 188-acre southern portion of the base is largely undeveloped, and extends into the heart of the city of Dublin. This parcel adjoins major Class A office buildings and retail establishments, as well as a mixed-use transit center development. The Army is working with the city to plan, zone and market the property for development. The Army will apply the proceeds from disposition to provide needed Army Reserve facilities and improvements. The city will benefit from the new tax base, but will not be involved in the Army's chain of environmental liability.

Tom Chandler and David Knisely have summarized in Chapter 16 the innovative use of the DOD leasing authority to restore the Old Brooke Army Medical Center as an historic treasure and a privatized economic asset for both the Army and the city of San Antonio. The new 450,000-square-foot Offices at Fort Sam provides Class A space to private sector tenants and the Army Medical Information Systems & Services Agency.

Alan King describes in Chapter 17 the privatization of two major facilities at the Walter Reed Army Medical Center, the pre-eminent federal medical center for worldwide referral care, clinical education and clinical research. The historic Building 40 has long been included in the National Register-eligible district, but the older structure was very expensive for the Army to maintain. In January 2004, the Army signed a 50-year lease with its competitively selected master developer, in exchange for the value of the leased assets ($20 million of in-kind services and $75 million in Army cost avoidance); the developer invested $62 million to restore the structure to commercial standards.

The Army's 1995 cancellation of its Engineer Proving Ground privatization project is described in Chapter 18 as a lost financial opportunity for the Army. This 800-acre strategically located property in suburban Fairfax County, Va., would have generated upwards of $200 million for the Army over 20-25 years. The Army cancelled the project about six weeks before the county was scheduled to consider the Army's zoning request. The county has since resisted the Army's $200 million sales offer as though the county had actually zoned the project property. Fairfax County resisted becoming involved in the Army's chain of environmental liability for the land. This chapter offers two cautions in working with the military departments on privatization proposals: First, does the military really understand how real estate values are created in a market economy, sufficiently for the military to remain a committed long-term development partner. Second, the community should exercise restraint in entering into any uncertain chain of environmental liability for military property outside the BRAC process without exercising full due diligence.

Dan Cosgrove describes in Chapter 19 three differing privatization perspectives — the government, the developer and the financier. The federal government is seeking to convert unused or underutilized property from being fiscal burdens into cash generating assets. Motivated by profit, most developers seek to create projects that will provide economic returns while limiting risk and liability. "Time is money for developers," and rising interest rates can turn a potentially successful project into a disaster. The financier provides the needed funds for the project, and seeks to ensure that the money loaned will be paid back, hopefully with interest and then profit. All three parties must find a common way to accommodate their interests in order to get the privatization project from concept to completion.

Part IV: Joint Airfield Use

The city of Sierra Vista, Ariz., as discussed by Mayor Thomas Hessler and former City Councilman Arthur "Casey" Jones in Chapter 20, has been using 23 acres at Fort Huachuca's Libby Army Airfield to support its joint use regional airfield since 1982. In 1989, the Army and Federal Aviation Administration (FAA) agreed to transfer another 43 acres supporting the airfield. In light of the fort's tight operating budget, the city also took the lead in securing funding through FAA and state grants to make safety and capacity improvements valued at about $6.4 million. The most recent partnering effort that the city and Army have undertaken is the transfer of approximately 203 acres via a public benefit conveyance. The city and Army are working together to complete the land transfer that will allow the city to develop an air park/aerospace center to generate revenue and create jobs that will support aviation-related industries.

In Chapter 21, the country's newest joint use airfield operation at Gray Army Airfield in Killeen, Texas, is analyzed by Don Christian. By 1997, the existing 5,500-foot municipal airport runway had become inadequate, requiring construction of a longer runway in order to maintain regional airline service. Fort Hood's Gray Airfield — with its 10,000-foot runway — provided a logical solution.

Part V: Utility Services

In Chapter 22, Carol Atkinson describes the cooperative efforts of Bay County, Fla., and the Air Force to develop a regional advanced wastewater treatment (AWT) plant, valued at $20.8 million, on an available 40-acre site at Tyndall AFB. The county was able to satisfy its future regional growth requirements while addressing Tyndall's need for upgraded sewer capacity. Tyndall AFB was able to use vacant land to generate approximately $20,000 in revenue annually through its lease to Bay County. The base also was able to close its treatment plant and become a customer of a more modern AWT facility.

As a municipal utility in Jacksonville, Fla., JEA provides the lowest possible preferential utility rates to the three Navy and Marine Corps bases in its service area. As described by Judi Revels in Chapter 23, JEA also performs energy conservation audits of the Navy facilities, with a total of $3 million in conservation improvements made at NAS Jacksonville and NS Mayport. JEA completed its new water system connection to NAS Jacksonville in October 2002, a project that will save the Navy about $830,000 compared to running its existing well system. A second bulk water sharing agreement under way will save the Navy another $300,000 a year. JEA and the Navy are engaged in a major initiative to improve and upgrade the Navy depot at NAS Jacksonville.

Following the 1995 BRAC realignment at the Red River Army Depot, the Army and the Red River Redevelopment Authority (RRRA) began negotiations for the authority to take over the utility systems via an economic development conveyance, and to bring the utilities up to current industry standards. As summarized in Chapter 24 by Rich Hall and Duane Lavery, the utilities and some 765 acres of surplus BRAC facilities also were transferred to the RRRA. Following three years of negotiations, the electric distribution system on the depot was transferred to the authority, and then immediately to a regional utility. Savings to the depot amount to about 40 percent per year.

Part VI: Local-State Housing Initiatives

In response to the Air Force need to supplement the 492 units of military family housing at Peterson AFB, the city of Colorado Springs has completed an 80-unit affordable housing project on a city-owned parcel. As described by Dick Sullivan in Chapter 25, the 80 Creekside at Nor'wood apartments were financed entirely with local authority equity and local housing bond resources. Construction was completed in October 2001, and the project was fully occupied almost immediately. The methodology used by the Colorado Springs Housing Authority to bring Creekside at Nor'wood to the marketplace for enlisted military households is one that can be duplicated anywhere there is a willing public entity developer/owner.

In Chapter 26, Michele Watson has summarized the creative efforts by the Virginia Housing Development Authority (VHDA) to provide first-time homeownership mortgages to military families, as well as other Virginia residents. VHDA was responding first to the emergency influx of 5,000-7,000 military personnel to the Norfolk area by 2000. In cooperation with the supporting private banking community in the state, VHDA was able to approve first-time mortgage loans valued at about $216.3 million to more than 2,200 Navy and Marine Corps families in the state.

Finally, as a creative use of the federal property disposal authority, Robert Wydra has summarized in Chapter 27 the creative efforts by the Tri-City Port Authority in Granite City, Ill., to preserve 152 units of military family housing at the former Melvin Price Support Center. A creative approach that included special federal legislation saved the housing units, which would have been lost to Defense use but now are managed by a local agency. This process clearly has been a mutual success for DOD and the community.

In the following 27 chapters, local communities, states and federal agencies have shown that they can perform as active public entrepreneur practitioners — in marshalling public and private sector resources. Often, these privatization initiatives were in response to crisis — including declining agency resources or future threatened mission realignments. Whatever the motivation, it is important to realize that available federal real estate and ongoing federal programs can be effectively leveraged to create economic value and opportunities for strengthening and sustaining ongoing federal missions.

PART I: MUNICIPAL SERVICES AT FEDERAL FACILITIES

Chapter 1
CITY-BASED MUNICIPAL SERVICES FOR THE PRESIDIO OF MONTEREY

By Fred Meurer

Work crews from the city of Monterey maintain the Presidio of Monterey.

Today's government, business and community organizations are changing at unprecedented rates. Factors shaping much of this change include a focus on core competencies and the emergence of new partnerships and collaborations.

A model for how the Department of Defense can leverage these opportunities is underway in the greater Monterey, California area. The Defense Language Institute Foreign Language Center (DLIFLC), Presidio of Monterey (POM) and the Naval Postgraduate School (NPS) each are actively engaging nearby organizations in new partnerships. These collaborations have proven to help the installations more cost-effectively pursue their missions. Some of these relationships take the form of contracts for services, and others are real estate leases where services are provided in lieu of rent payments.

DLIFLC, POM and NPS have discovered that these local collaborations generally follow two principal themes. Such partnerships provide substantial cost savings to DOD appropriated and non-appropriated funds. In addition, these relationships generate another kind of value that enhances the quality and operational effectiveness of the military missions in Monterey. Many successful initiatives are under way and a number of future partnerships are being discussed. Several examples of recent successes follow.

Base Operations Support

Within DOD, it is common for a service to contract with a sister service or a foreign government for services. It also is typical for a local government to contract with an adjacent city, special district or state agency for service delivery.

Substantial barriers exist, however, to a service partnership between an installation and a nearby city.

These barriers include the Federal Acquisition Regulations, United States Code prohibitions, and the Office of Management & Budget Circular A-76 process. In an effort to test a new paradigm, Congress adopted in 1994 legislation establishing a demonstration project for the purchase of fire, security, police, public works and utility services from local government agencies in Monterey County, Calif. This authority later was permanently authorized for installations in Monterey County.

Fred Meurer is the city manager of Monterey, Calif. and also serves as the NAID/ADC vice president. He can be reached at meurer@ci.monterey.ca.us.

To facilitate the demonstration project, the cities of Monterey and Seaside formed a joint powers agency (JPA) to deliver municipal services to POM and Ord Military Community. Services under contract include maintenance of streets, buildings, water and stormwater systems, and fencing. Contract pricing generally follows a marginal cost model. By design, the JPA neither subsidizes nor profits from the venture. Unlike private partnerships, city-based municipal services and military installations share the same base of shareholders: the taxpayers. By definition, tax-based services eliminate the need to charge profit margins, which normally run from 7-20 percent, making these types of municipal services very attractive to military base commanders.

The Army Audit Agency (AAA) recently certified the success of this initiative. For a similar and private-industry scope of work over a one-year period, POM's cost for base operations services via its agreement with the JPA was $3,681,000. The benchmark cost via an Inter-Service Support Agreement with Naval Support Activity Monterey Bay was $6,213,000 (adjusted for inflation). This translates to a savings of $2,532,000, or 41 percent.

An earlier fire protection agreement (predating the Title 10 prohibitions related to the use of appropriated funds on contract public safety services) adds to the Presidio's savings. While POM's annual cost to sustain a stand-alone fire suppression operation is estimated at $1.7 million, the installation pays $226,000 to the city of Monterey for fire services. Taken together with the base operations agreement, the Presidio has achieved a 49 percent saving over its traditional support costs.

The advantages of this approach are obvious. Collaborations like this allow the military services and municipalities to focus on their core competencies, to the benefit of other tasks. The services can leverage local government's strong customer focus and track record, as well as local government's flexibility and motivation to involve the private sector. It also creates economies of scale, and otherwise enables a business-like approach to installation management. Lastly, it provides for a far more efficient and effective application of resources.

Local Assets Add Value

Faced with resource constraints, the DLIFLC and POM recently closed their child development center (CDC) located on the Presidio in favor of continued operations of the CDC in its housing areas 8 miles away. Upon hearing of this, the community stepped forward with a proposal for the city of Monterey to lease the CDC to manage the childcare operation. DLIFLC and POM continue to receive the same level of support that they previously required, and the community is able to leverage the badly needed childcare capacity.

The community also helps to prepare DLIFLC's language instructors. Approximately 90 percent of the faculty is native speakers who have immigrated to the United States. Many faculty members are pursuing foreign language teaching as a second career and need formal training in teaching and language acquisition. The nearby Monterey Institute of International Studies (MIIS) helps to satisfy this need with its master's degree program in foreign language teaching, one of several projects in which MIIS and the DLIFLC are partners.

DOD's students in Monterey benefit as well. In 1994, an agreement was negotiated with nearby Monterey Peninsula College (MPC), allowing DLIFLC students to apply their academic accomplishments toward the requirements for an MPC associate's degree.

Shared Use Provides Park Land and Preserves Historic and Natural Resources

Soldier Field is a new 10-acre sports field complex located at the Presidio. Its creation was the result of compatible needs and a shared vision.

While the Army had land and a need for improved athletic fields, it did not have the resources to construct and maintain new facilities. The city of Monterey had a

Monterey transformed the soccer field at the Presidio of Monterey into three baseball fields that can be used by both the military and community groups.

similar need for sports fields, as well as resources to construct and operate them, but no land. During early discussions, it was clear that the two stakeholders' scheduling requirements for using sports fields were largely complementary.

The result is a precedent-setting joint use agreement that allowed the city to renovate these fields with new grading, irrigation, sod, backstops, fencing and skinned infields, and a running path. The city maintains and manages scheduling for the fields, which are used for a variety of organized youth and adult sports. Force protection requirements stemming from the events of Sept. 11, 2001, have precluded public access to the fields, but activity is currently under way to restore community access to the facilities. They are used by the Army as a parade field and for organized sports and physical training.

Another example is the Huckleberry Hill Nature Preserve. In 1988, the city of Monterey leased 81 acres of forested land from the Army. The city maintains and operates this area as a nature preserve. As a result, the Army has been able to ensure that a sensitive Monterey Pine forest habitat receives the stewardship it deserves at no cost to the Army. At the same time, the community has access to a beautiful forested area with superb vistas and trails connecting to the city's Veteran's Memorial Park.

Lastly, the POM Historic Park is a decades-long dream that came to fruition in 1996 when the Army and city of Monterey signed a similar lease for the city to operate 26 acres in the lower Presidio as a historic park. This is some of the most historically significant ground in all of California, and contains important meaning to the Army, the Native American population and the community. The city improved the trail network and established a self-guided tour, and continues to maintain the area and operate the on-site museum.

Future Opportunities

A number of other initiatives are in the planning or early execution stages. A regional institutional telecommunications network has been activated (saving the local DOD organizations hundreds of thousands of dollars each year), and discussions are under way regarding collaboration on a variety of fitness and wellness programs, privatization of military housing, and the creation of a performing arts facility. In addition, discussions are under way between Monterey and the NPS regarding the delivery of municipal services on the NPS campus.

Conclusion: Ensuring Success

The foundation for the successes described above is a quality relationship of respect and cooperation between the installation leadership and city leadership. Each must understand the needs and limitations of the other. Neither partner can move the risk or burden to the other partner without consideration. Like a marriage, the relationship will only grow if time and effort are invested in making it happen.

Chapter 2
HINESVILLE-FORT STEWART — JOINT DETERMINATION OF PUBLIC SUPPORT REQUIREMENTS

By Mayor Thomas J. Ratcliff Jr. & Billy Edwards

In 1975, the 24th Infantry Division (Mechanized) was reactivated and assembled at Fort Stewart, Ga. Fort Stewart, a 279,000-acre Army installation, was under caretaker status at that time and had only a few military and civilian workers there on a daily basis. The fort is adjacent to Hinesville, Ga., the county seat for Liberty County. It is situated midway between the ports of Savannah and Brunswick along the Atlantic coast. Today Fort Stewart/Hunter Army Airfield are home of the 3rd Infantry Division (Mechanized), better known as The Iron Fist of the 18th Airborne Corps.

In 1975, Hinesville and Liberty County were small communities with populations of about 7,500 and 21,000, respectively. When the initial 10,000 soldiers plus their families arrived following the reactivation, neither the local communities nor Fort Stewart had the infrastructure capacity to accommodate the accompanying demands. The military and civilian leaders immediately began working together to build support mechanisms necessary to accommodate the burgeoning population. This attitude of cooperation and commitment to work together to provide for the common good of the military and civilian communities continues today, even as new challenges arise.

Joint Wastewater Treatment Facility

Soon after the reactivation, numerous joint projects were undertaken, including small road construction projects. All the while, planning for larger, more comprehensive projects began. The most notable effort was the accommodation of the military and civilian need for additional wastewater treatment capacity. Although numerous bureaucratic and regulatory hurdles had to be overcome, military and local leaders decided it would be most cost-effective to work collectively. The cost of a regional facility meeting the needs of all was significantly less expensive than the cost of separate civilian and military facilities. The larger regional facility offered economies of scale that were expected to provide lower operating cost per unit of treated wastewater.

A memorandum of agreement was signed by the appropriate military representatives and the mayors of Hinesville and three smaller, adjacent cities to jointly design and construct a regional wastewater treatment facility that would satisfy the needs of the entire community for 25 years. Funding for the design and construction of this $25 million project was shared between the civilian and military partners based on the capacity of the facility that was allocated to each. For various reasons, it was determined that the best location for the new facility was on the installation and the site was provided by a no-cost lease to the city of Hinesville.

The agreement called for the city of Hinesville to own, operate and maintain the facility and for the city of Hinesville to provide wastewater treatment services to Fort Stewart at cost. The unit cost to Fort Stewart was a pro-ration of the actual unit cost experienced by the city of Hinesville.

Through time, operational adjustments have been necessary and new technology has required additional capital improvements from the city with appropriate adjustment in unit cost pricing. This joint use agreement has been in effect for two decades now and has proven to be a very effective and efficient arrangement for the entire community.

Representatives from Hinesville and Fort Stewart have begun meeting to discuss measures that can be taken to increase wastewater treatment capacity to meet the future needs for both parties. The 3rd Division is

---

Thomas J. Ratcliffe Jr. is the mayor of Hinesville, Ga.; executive committee member of Georgia Military Affairs Coordinating Committee; and practicing attorney with Ratcliffe & Smith P.C. in Hinesville, Ga. He can be reached at RSRG2@clds.net.

Billy Edwards is the city manager of Hinesville, Ga. He can be reached at bedwards@cityofhinesville.org.

the first Army division to undergo the service's transformation to brigade combat teams, and as a result additional troops will be added to the installation. And due to the growing civilian population, additional wastewater treatment capacity approaching 4 million gallons per day will be necessary. It will take a collaborative effort to develop that additional capacity.

In addition to the cooperative arrangement for wastewater treatment, numerous other opportunities for partnering between the military and civilian communities have been developed and still others are being explored. Other examples of ongoing cooperative efforts include:

- **Utility Clearinghouse.** An agreement through which service members that need to connect to utilities avoid paying a deposit and in turn agree to process through the clearinghouse when they relocate under permanent change of station (PCS) orders. The command at Fort Stewart is supportive of this arrangement and takes the appropriate steps to assure military members adhere to the agreement.
- **Fire Services Automatic Aid Agreement.** Under this arrangement the Hinesville and Fort Stewart fire departments automatically respond when either is dispatched to an emergency. Typically the department that is providing the aid will respond directly to the fire station of the department that is the primary responder.

Additional partnering opportunities that have been discussed and that are at various stages of development are:

- **The Liberty Center.** Most military installations provide post-secondary educational opportunities for military members and dependents through colleges and universities that are members of Servicemembers Opportunity College Army Degree (SOCAD). However at Fort Stewart, pursuant to a memorandum of understanding, a consortium of three state colleges and universities offer courses and degree opportunities to military members, their dependents and civilians. This consortium is called the Liberty Center. The University System of Georgia has invested more than $500,000 in distance learning and other infrastructure. Construction is under way on a 78,000-square-foot facility that will house the post-secondary educational offerings. The facility is scheduled to open in the fall of 2004.
- **Wright Army Airfield Joint Use Airport and Development Park.** Fort Stewart has an airfield with two 5,000-foot runways that are closed to heavy lift aircraft (C-130s) as a result of funding shortfalls for maintenance and repair. The area around Hinesville and Liberty County has been identified in the state aviation plan as a prime location for a regional airport. Early studies demonstrated that a regional airport could be developed on Fort Stewart using the existing aviation facility for approximately $4.5 million, as opposed to the estimate of more than $10 million to develop a bare bones regional facility on a green field. The obvious answer was for the civilian community to tap into local, state and federal (non-DOD) funds to rehabilitate the infrastructure at Wright Field in exchange for the joint use of the airfield and the use of adjacent land. The land will be used for civil aviation facilities and a development park to be operated by the Liberty County Development Authority. Lease payments received from private sector tenants in the development park will be used by the civilian community to offset its commitment to fund future maintenance expenses for the airfield. A lease granting the real estate to the local partners has been signed and construction bids are to be received in early summer of 2004.
- **Fort Stewart Water and Sewer Systems Privatization.** The city of Hinesville has submitted a proposal to the Army to privatize the water and sewer systems at Fort Stewart. The city views the proposal as a logical next step in the current arrangement for providing the installation with wastewater treatment services. The close proximity of the fort and Hinesville water and sewer systems affords a great opportunity for both to be operated and maintained by the same staff and mobile equipment. Economies of scale are expected to create a lower unit cost to both entities and ultimately a savings to both.

Partnering opportunities that are being discussed but which have not yet progressed to the planning stage include:

- **Joint Planning Effort.** Military family housing units at Fort Stewart have been privatized through the Army Residential Communities Initiative (RCI) process. The cantonment area of Fort Stewart abuts the city of Hinesville. To put that in perspective, the headquarters building on Fort Stewart is within 1 mile of the county courthouse that is located in the center of the Hinesville central business district. A downtown redevelopment effort in Hinesville has been initiated through which housing opportunities will be created to augment the work on going at Fort Stewart through RCI. Because of the closeness of the cantonment area and the Hinesville downtown, it is imperative that planning efforts for both initiatives be integrated between Fort Stewart officials with the RCI developer and city officials with their planning consultants. This integrated planning is supported by and will be facilitated by the military command and the civilian leadership. An extraordinary opportunity is present to accomplish a coordinated land use and facility plan for the next 50 years.

- **Joint Use Library.** Fort Stewart has a library that is inadequate to satisfy the needs of the military members and their dependents. The public library in Hinesville is inadequate to satisfy the needs of the civilian community. The two libraries are about 1 mile apart. Development of a joint library that would be built halfway between the two existing facilities and that would accommodate the special needs of the military, civilian and academic patrons is being discussed.

- **Joint Use Museum.** Fort Stewart has invited the civilian community to explore the relocation of the existing base museum and its expansion to a joint use museum to include matters of civilian history and interest.

The communities of Hinesville and Fort Stewart are inextricably linked. The aforementioned examples of ongoing and potential partnerships clearly underscore the fact that we are a "Community of One."

Chapter 3

BELLEVUE PUBLIC SCHOOLS/ OFFUTT AIR FORCE BASE WELCOME CENTER

By Dr. John Deegan and Cathy Williams

Bellevue Public Schools and Offutt Air Force Base, Neb., have a long-standing working relationship. About half of the 9,000 students enrolled in the school district are children of active-duty military personnel. Together, the school district and base look for ways they can add to the quality of life for military families and the community.

As a result of this outstanding, ongoing partnership, Bellevue Public Schools is constructing a one-stop Bellevue Public Schools/Offutt AFB Welcome Center. The center, the first partnership of its kind in the Air Force, was completed in November 2002.

Smooth Transition for Military Families

The philosophy of the center is to provide a smooth transition for military families, as well as civilian families, as they enter the community. By working with families as they arrive, the public school leadership and the base believe that it adds to their quality of life and develops a strong sense of belonging. Through this one-stop center, Offutt AFB will have a wing of the building where representatives of the Family Support Center will greet new families, families can meet with sponsors, and they can see a display of the base heritage.

Bellevue Public Schools will be located in the other wing of the welcome center. While families are at the center, they can visit with representatives from the school district and register their children, apply for employment in the area, and receive information about housing, utilities, businesses and restaurants in the area.

In addition, while the families are taking care of business, there is an early-childhood center located next door to the Offutt area, staffed by the local school district, where students can participate in puppet shows, work on computers, listen to authors, and check out books and toys. A glass wall divides the Offutt Welcome area and early-childhood center, so that parents can feel comfortable visiting with their sponsors while still keeping an eye on their children.

The Welcome Center Facility

The welcome center sits on 28 acres of land owned by Bellevue Public Schools, which is centrally located in the community and next to Offutt AFB. The land was purchased from the state with the understanding that it would be used for the public interest; in other words, no land could be used or sold for commercial ventures. The school district began to look at the needs of the school district, base, and community to develop a lifelong learning center. The Lifelong Learning Center will feature four buildings: the welcome center, the BPS/Lied Activity Center, Metropolitan Community College, and a possible city library. In addition, there will be a walking trail, arboretum and softball fields.

The Bellevue Public Schools system is building two of the buildings, the welcome center and activity center. Options have been signed for the remaining two buildings, which will be constructed by the college and city. The welcome center and activity center are being constructed for $8.3 million. Funding for these buildings has been secured through the school district and grants.

The foundation awarding the major grant for the centers did so because of the unique school district/base partnership and the interest in addressing quality of life issues for military and civilian families. One provision of the grant was that it was to begin within a very short period of time.

Through the partnership and grant, Offutt AFB will provide space for the welcome center and heritage room, and all military families will be able to participate in any events at the activity center. The activity center will include indoor basketball, volleyball, soccer, batting

Dr. John Deegan has served for many years as superintendent for Bellevue Public Schools, near Offutt AFB, in Bellevue, Neb. Dr. Deegan also is the president of the National School Impact Assistance Association and a nationally recognized advocate for quality education on military bases.

Cathy Williams is director of communications for Bellevue Public Schools, near Offutt AFB, in Bellevue, Neb. She can be reached at carolmisa@aol.com.

cages, zero-depth-entry swimming pool, jogging/walking track and a large banquet hall.

Cost Efficient Services for the Base

Government agencies are looking for innovative ways to meet the needs of their clients and "customers" in the most cost-efficient manner. Through partnerships such as the Bellevue Public Schools/Offutt AFB Welcome Center, the Bellevue School District can meet many needs of its customers, while addressing the quality of life for our military families at Offutt AFB.

Chapter 4
ENID AND VANCE AFB: PARTNERS IN THE SKY

By Michael G. Cooper

Few partnerships between a community and a military installation can boast mutual trust and admiration from the start; the community of Enid, Okla., and Vance Air Force Base can. Even before there was a military presence in Enid, community leaders responded to the call to fill the need for pilots in the looming conflicts in Asia and Europe that ultimately resulted in World War II.

A lease of 1,000 acres to the federal government helped secure a military installation in Enid. The Air Corps Basic Flying School was activated in September 1941. Several thousand military men earned their wings at the flying school. The school later became Enid Air Force Base. Then in 1949, the base was renamed Vance Air Force Base in honor of Lt. Col. Leon R. Vance Jr. As the 1940s ended, Vance AFB, in partnership with the city of Enid, looked forward to a long and rewarding existence to the service of its nation.

For more than 60 years, the people of Enid have welcomed new military personnel to their community. The Enid-Vance AFB Air Force Association chapter is the largest individual chapter in the country. Military personnel and their families who have been stationed at Vance often return to retire in the community that opened its arms to them. Those individuals have joined in the efforts to make our military men and women feel at home in their home away from home. Those efforts have paid off.

The Enid community has taken a multi-track approach with its relationship with Vance: adequate land and military construction to strengthen Vance, quality of life and education. All three tracks share one mission: to grow and enhance Vance.

Enhanced Facilities and Land to Support Vance AFB

The Enid community efforts are centralized with the Vance Development Authority (VDA). The development authority is a coalition of business and civic leaders who head the base enhancement efforts. Working with needs assessments, the VDA has been instrumental in helping to secure federal military construction funds for Vance.

Over the last 10 years, VDA and the state's congressional delegation have been part of a concerted effort to secure more than $75 million in improvements at the base. Those improvements include: new ramps and runways, a fitness center, a family support center, hangars and control towers.

In 1995 VDA helped secure more than 20 additional acres in adjacent property to aid a mission expansion at the base. This land is being used to enhance the security of the base. Working with state officials, VDA has secured funding to facilitate the move of the main gate and service entrance.

Enid's Commitment to Education

Always an innovator, Enid was the first community to offer a special scholarship program for military personnel and their dependants. The program provided aid for tuition and books for classes at state colleges and universities. To accommodate pilots, the community offers a scholarship to Embry-Riddle Aeronautical University. Seeing how well the program worked, the government is accommodating military personnel with tuition scholarships.

The Enid community has focused its efforts on deferring the cost of books through a new program. Enid also has worked with state universities and colleges to provide a fast track program for those seeking master's degrees in business administration. Realizing how important education is, the people of Enid passed the largest education tax initiative ($27.5 million) in community history to upgrade the buildings and computer labs in the local elementary, junior high and high school facilities. The first school to receive renovations was the primary elementary school attended by the children of personnel stationed at Vance.

Michael G. Cooper is the chairman of the Vance Development Authority, a former mayor of the city of Enid and area manager for external affairs for Southwest Bell Telephone Co. He can be reached at mc2913@sbc.com.

Enid Focuses on its Quality of Life

Drawing from personal experience in the military life, several civic leaders realized there was a lack of affordable, quality housing for highly mobile military personnel. The city worked with property owners to create a housing pool that provides homes on short-term leases. Military personnel are able to live in the homes for their entire stay at Vance or until they are able to move on base. The community subsidizes property owners to keep the off-base housing available.

The community of Enid issued a $27.5 million school bond to upgrade facilities at the local elementary, junior high and high schools. Eisenhower Elementary (pictured here) is the primary elementary school attended by the children of personnel stationed at Vance AFB.

Realizing the need to protect the flying area for pilots, the Oklahoma legislature passed legislation giving communities with military bases the ability to strengthen their air installation compatible use zones (AICUZ) ordinances, thus providing the highest degree of encroachment protection in the nation. Aid to homeowners whose property lay in the Vance training flight path also was established. The city of Enid has set aside funding to facilitate a noise reduction grant program for homes in the 60-80 db (decibel) range of Vance.

The world will change, the missions of our nation's military will change and the Enid-Vance Partnership will continue to evolve. But the partnership always will hold a common goal of expanding and protecting the mission at Vance Air Force Base while maintaining a commitment to train the best pilots in the world.

Chapter 5
BELLE CHASSE ACADEMY: INVENTING A NEW SCHOOL SYSTEM TO STRENGTHEN A MILITARY BASE

By Jane Fitzgerald Dye

In 2000, the Mayor's Military Advisory Committee of New Orleans, working closely with military leaders, identified two issues that helped put a "poor" label on the life of military families living in the New Orleans area: the lack of affordable housing and poor public school systems.

With a commitment from military leaders, the first problem was solved with a 500-unit, public-private venture expansion of housing units at Naval Air Station/Joint Reserve Base New Orleans, located in Belle Chasse, La.

The answer to the second problem, military and civilian leaders believed, was the establishment of a charter school on the military base. This was something that had never been done before, so local leaders had to "invent the wheel" as they went. The support of the local and state business and political leaders was phenomenal and made Belle Chasse Academy a model of success for others to emulate.

State Enabling Legislation

In order to establish the school, legislative action to change charter school policy regarding percentage of Title I (economically disadvantaged) students had to be obtained. Other potential problems, which Louisiana charter school law already addressed, were the busing of students from multiple parishes (counties) and the prioritizing of enrollment to favor military dependents.

Only two years after the idea originated, Belle Chasse Academy opened its doors with 637 students. The school has a two-story building, containing nearly 90,000 square feet. It has 37 spacious standard classrooms, resource, art, foreign language and science classrooms, a full-size gymnasium, a resource center/library, a cafeteria, and a youth center. It has computers and Internet access in every classroom. Today the school serves 860 students from kindergarten through eighth grade.

Belle Chasse Academy, a nonprofit corporation, is governed by an 11-member board of directors made up of community leaders, parents and Louisiana-certified teachers, most of whom have an affiliation with the military, either as a retiree, current military member or spouse of a military member. The board is responsible for all fiscal, personnel and operational issues of the school. Since it is a charter school, there is no tuition charged. Funding comes from the state department of education, based on student enrollment, and from federal programs. Belle Chasse also receives a significant amount of funds from the Federal School Impact Assistance program from the U.S. Department of Education.

Quality Education for Military Children

The academy's momentum has not waned since the opening day, and its vision is still in the forefront of all school activities: To provide a quality education and cater to the special needs of military dependent students, as well as provide convenient access for parents that have long and unusual work hours.

Belle Chasse Academy recognizes that throughout their lives, children of military service members face more stress than civilian children since they move to new homes and schools every few years and typically one of their parents is frequently deployed, often in harm's way. In that regard, the academy provides continuing student counseling on the unique challenges faced by the military-connected child in an effort to reduce the stress the student faces, as highlighted in the accompanying insert from the academy's Web site.

Jane Fitzgerald Dye has served as the principal of Belle Chasse Academy since its founding in 2001. She can be reached at jfitzgerald@bellechasseacademy.com.

Military Families share special qualities!

- Dedication and Commitment – They work together to achieve individual, family and national goals.
- Sacrifice – They make difficult choices and accept important responsibilities.
- Adaptability – By adjusting to deployments and relocations, they learn from new experiences and develop strength as individuals and as a family.

Belle Chasse Academy's dedication to its goal of serving military families is summed up in a statement on the Guidance Department's Web site.

Agreeing with the Military Child Education Coalition's contention that the parent is the best advocate for the military child's education, Belle Chasse Academy makes sure that parents can be deeply involved in school programs.

Parents have open access to classrooms for observations, Parent-Teacher Organization (PTO) meetings are held monthly, and parents have direct and substantial input into the annual discipline policy review/handbook, annual guidance plan and annual pupil progression plan.

Student attitudinal surveys are distributed and analyzed annually. There also is a suggestion box for those that prefer anonymity. All teachers and staff have voice mail and e-mail and timely response is requisite. There are many PTO-sponsored functions, and the school sponsors family reading nights and family math and science nights.

Belle Chasse also offers students a great chance for extracurricular activities. The academy is located near New Orleans, and students get deeply involved with Mardi Gras and the parades and other festivities associated with that event. Belle Chase participates in football, volleyball, and boys and girls basketball.

Educational Performance

As part of charter school accountability in Louisiana, Belle Chasse Academy administers the Iowa Test of Basic Skills twice during each school year. This standardized test helps measure academic gains. In its second year of operation, standard score gains in both core curriculum and composite averaged 13.8 points in only seven months of instruction. Additionally, students in fourth and eighth grades must pass the Louisiana Education Assessment Program (LEAP 21) tests in order to be promoted. Belle Chasse Academy scores have been very good, with passing rates exceeding that of local parishes. Of note, the eighth grade passing percentage in 2004 was 91.2 percent, a figure that included special education students previously exempt from testing.

Additionally, the academy is one of 50 U.S. schools designated as an Explorer School by the National Aeronautical and Space Administration. Earlier this year, the school was visited by David King, director of NASA's Marshall Space Flight Center, and the next teacher-astronaut, Barbara Morgan.

Morgan and King visited classrooms, presented a slide show and answered numerous questions while sharing President Bush's vision of space exploration. They also presented the principal with a model of the space shuttle in recognition of participation in the Explorer School program.

In keeping with the school's close military ties, students have hung stars in the school lobby in honor of their deployed parent or step-parent.

Conclusion: Military Quality of Life Issues

In this very challenging budgetary environment, the Department of Defense will be looking closer than ever at the efficiencies of their installations through the 2005 Base Realignment and Closure (BRAC) process. Belle Chasse Academy offers a unique and innovative solution to a major quality of life issue for military families.

In an area that has major challenges in the quality of its public schools, the ability to build a civilian charter school on a military installation that supports military dependents at no cost to DOD is very significant. The enhanced quality of life made possible by a good school will be a critical support piece in meeting the BRAC criteria. Clearly, when this is coupled with a solid military mission it will result in making the Joint Reserve Training Center at Belle Chase more competitive than ever going into the BRAC process.

PART II: REAL ESTATE & FACILITIES – EARLY PRECEDENT PROJECTS

Chapter 6
REAL ESTATE PRIVATIZATION: BORN FROM CRISIS

By Daniel P. Cosgrove

On Sept. 28, 1984, ABC-TV's Nightline devoted an entire broadcast to the plight of military families struggling to make ends meet and find adequate housing. Host Ted Koppel told the story of a teen-aged military dependent at Fort Ord, Calif., who had taken his own life to ease the financial burden on his family.

In Hinesville, Ga., the commander of the Army's 24th Infantry Division, then Maj. Gen. Norman Schwarzkopf, appeared on the program to highlight the problems that personnel in his division were having in the area around Fort Stewart. After a parade of military, defense and civilian dignitaries spoke their peace, the program closed with a call for assistance for military families.

Response Follows Existing DOD Authority

When dawn broke the next day, the Army, Department of Defense and Congress were faced with a crisis that had been brewing for years, but had only hours before become a national debate: how to find housing for military families with a limited budget. New legislation was being readied to test a program of privatized military family housing. Money was added to the defense budget for the construction of on-base housing, but these alternatives seemed slow and cumbersome. The Army decided to use a decades-old but seldom exercised leasing authority in the United States Code (10 USC 2667) to address the specific problem at Fort Ord, which is located in Monterey County.

This legislative relic of the late 1940s authorized the secretary of the Army and the other service secretaries to out-lease non-excess military property. Army real estate professionals at Fort Ord and the Pentagon quickly drafted two requests for proposals for the development of two separate housing projects on base land. One project called for small apartments for individuals or couples on-post, while the other solicited the development of a manufactured housing complex to address a serious affordability problem in the area. Neither project involved Army financial support, guarantees of occupancy or base closure protection. Each project paid a nominal ground rent in exchange for giving military personnel priority to rent at specified rental levels. Both projects were completed quickly and opened for business in record time.

As a result of the 1991 BRAC round, Fort Ord was realigned and the mission restructured to reduce the number of troops assigned to the Monterey area (see Chapter 7). The two projects were opened to civilian tenants and the land under both was sold to the developers. The Army benefited by having created housing in the 1980s without making a financial contribution and then from the sale of the land after realignment.

The success of the two Fort Ord projects (see Chapter 7) displayed the ability of the military services to mine the asset value from existing land assets without selling the property.

Other DOD facilities nationwide began to use the Section 2667 authority to place privately financed leased and rental family housing projects on base. Two privately owned and operated daycare centers were built on government land to provide affordable daycare for military families and government workers. As military commanders and civilian government real estate experts became familiar with the benefits of Section 2667, uses expanded to include: research facilities, a car wash, a multiplex movie theater, credit unions, banks, guest houses and commercial facilities.

As will be highlighted in Chapter 8, Lincoln Laboratories in 1989 leased a piece of Hanscom Air Force Base in Lincoln, Mass., for the development of a large research facility. Lincoln Labs is a nonprofit corporation owned by the Massachusetts Institute of

---

Daniel P. Cosgrove is an attorney and serves as president of Defense Facilities Corp. in Fairfax, Va. He can be reached at dpcosgrove@aol.com.

Technology. It conducts research for the Air Force and other government agencies. The non-excess property ground lease for the project called for a 32-year lease, which included a two-year construction phase.

As required by Section 2667, the Air Force charged Lincoln Labs the fair market value for the rental, which was reduced to a nominal rent because of the nature of the service the facility provides to the federal government. Separate contracts for research services support the work of Lincoln Labs and the mortgage on the facility.

Congress agreed to the lease when it was notified of the Air Force's intention to enter the relationship and the legislatively mandated 30-day review period expired without objection from the appropriate committees of Congress. Since its opening, the Lincoln Labs facility has provided valuable and cost-effective service to the government, without the commitment of federal appropriated construction funds.

New Creative Veterans Affairs' Initiative

The success of the Section 2667 leasing program inspired imitation. In the early 1990s the U.S. Department of Veterans Affairs (VA), as discussed in Chapter 9, faced a misalignment of real property assets. VA owned aging facilities that were underutilized, but the department lacked the ability to extract value from its real estate. In other areas, new facilities were needed, but appropriations were not provided to build health care facilities or infrastructure.

The solution came in the passage of new regulations (38 USC Sections 8161-8169) that permit the VA to enter into "enhanced-use leases," or EULs, up to 32 years for non-excess property to be reused for commercial and other purposes in exchange for cash and/or in-kind rental payments. The critical factor in this legislative breakthrough was the ability of the VA to retain the proceeds of the lease, rather than relinquish all payments to the U.S. Treasury.

The incentive to lease suddenly became clear to VA managers struggling to maintain aging buildings and grounds on insufficient budgets. The new legislation also negated the onerous provisions of other real property legislation, which had for years prevented federal property specialists from realizing the income generating potential of federal land. Since 1991, VA has entered into dozens of enhanced-use leases. Projects have included: conversion of a dilapidated office building into a hotel; land for power plants that serve the needs of VA hospitals and private customers; office buildings for VA programs; a homeless shelter for veterans and non-veterans; a research park; and assisted living units for elderly veterans.

While the VA could have contributed several million dollars to each project and still met the congressional limits on its participation, VA's contributions have been negligible. Private sector participants have, however, agreed to provide hundreds of millions in development capital that would otherwise have had to be appropriated by Congress.

Dramatic new, large EUL projects recently have been undertaken to ease the financial burden faced by VA. In 2003, VA awarded an EUL contract for privatization of a substantial portion of the Fort Leavenworth, Kan., VA hospital complex. The contract calls for preservation of historic buildings that VA could not afford to maintain. In Baltimore, Md., VA awarded a contract for a developer to take over the 94-acre site of the former Fort Howard Veterans Hospital. The developer will preserve seven historic buildings, rebuild a 10,000-square-foot clinic, and create housing and commercial facilities that will generate funds to share with VA. In its largest EUL project ever, VA solicited offers for a city block-sized former VA hospital in downtown Chicago. Known as Lakeside, the hospital is obsolete, but the land is extremely valuable. Experts have speculated that VA could receive up to $100 million in lease payments for the site. Additional EUL projects can be expected in the near future.

Extension of EUL Authorities

In October 2000, Congress embraced EULs as an engine for change in federal real property, when it modified the authority to include enhanced-use leasing for the military. At the same time, Congress extended the EUL period for the VA from 32 to 75 years.

Military commanders now are free to consider leasing underutilized non-excess property for commercial purposes and to retain at least half of the proceeds on base or for in-kind services to the base. EULs relieved base commanders from the burden of maintaining more property than they need at the moment, while providing them with a potential stream of cash or in-kind services to support base activities that are not fully supported by annual appropriations from Congress.

The extension of VA's leasing authority has had a significant impact on the value of its non-excess property. Real estate experts agree that a 75-year ground lease creates substantially more value for the owners and potential developers than a 32-year lease.

Modern Real Estate Practices

Since the late 1940s, the military, and now the VA, have been moving slowly toward modern real estate management practices. The creation and modification of 10 USC 2667, and the VA's EUL authority are proof that federal real property can have value beyond the limited confines of federal uses.

In the past few years, military and civilian government real estate professionals, as well as private sector participants, have become versed in the advantages and restrictions of non-excess property ground leasing. Today, federal property is being mined for value, just like its counterparts in corporate America.

Chapter 7
EVOLUTION OF PUBLIC-PRIVATE PARTNERSHIPS: BROSTROM PARK IN THE 1980s

By Jacqueline Rogers

Picture Fort Ord in Monterey, Calif., in the early 1980s, a sprawling installation teeming with soldiers preparing to go overseas. Now picture the other Monterey, a coastline with ample housing for the upper classes, the Pebble Beach golf course and few housing units affordable to ordinary soldiers. Now imagine Danny Holly, age 12, the eldest child of a soldier who had been rotated to Korea, leaving his wife and four children behind to cope.

More than 2,000 families were waiting for base housing. The Holly family tried. Danny performed odd jobs whenever he could, but there simply wasn't enough to go around. The poorly housed family often went without enough to eat. Finally, it was too much. Danny killed himself, leaving behind a note saying that now there would be one less mouth to feed.

Affordable Housing – The Attention Getter

This tragedy was an immediate attention getter. Even the Pentagon knew about Danny. The imperative to do *something* now echoed up and down the chain of command. Crisis — together with a fortunate alignment of capable risk takers among military commanders and managers, the city, and a developer, who had a prior track record of success with the military — produced results. In less than a year, 220 mobile homes were available at fixed rents affordable to enlisted soldiers and their families on 60 acres of previously undeveloped land within Fort Ord.

Along the way, new ground was broken from a policy standpoint, sacred cows were ignored and rules were creatively interpreted. A simple deal was cut, which worked well enough for both parties to survive changes in command, base closure and a crash in the Monterey real estate market. All sides were clear about the outcomes being sought and all were respectful of each other's needs.

- The Army wanted decent, inexpensive housing quickly and it did not want to pay for it. It was willing to use an available asset — land with access to utilities, offered under long term lease for $1 per term with no obligation to the government to expend funds — to broker that result.
- The developer wanted to profit from the development and long-term management of housing on military property.
- Since the infrastructure and homes were to be privately owned and potentially occupied by civilians, the city wanted property taxes and to be sure that the property was developed using state and local codes.

These same ingredients drive the current military family housing privatization initiative, but the process is vastly different. At Fort Ord, all parties to the deal adhered to the "keep it simple, stupid" principle. The 16-page lease, which has been amended five times by mutual consent, has stood up well, despite great changes in the Army's needs and the local housing market.

The deal was so successful that DOD sponsored a handbook promoting the Fort Ord formula. In 1987, Army Chief of Staff Gen. John A. Wickham wrote to the developer, Ray Roeder: "Brostrom Park represents a highly successful partnership between the Army and the private sector which has provided the basis for Congressional approval not only to continue the third-party housing movement but also to expand to other types of facilities. … Your work … will be the example followed by commanders and entrepreneurs alike."

Jacqueline Rogers has been a senior fellow at the School of Public Affairs at the University of Maryland since 1994. Prior to that, she served for seven years as OMB director in Montgomery County, Md., and for seven years as secretary of housing and community development for Maryland Gov. William Donald Schaefer. She can be reached at rogersj@umd.edu.

Developer Selection and Development Approval Process

The concept was locally developed, then ratified by higher levels of the Army. The inverse often is the case today. Fred Meurer, then director of engineering and housing and now Monterey city manager, convinced the higher ups that authority existed to develop a privately owned and managed mobile home park, by creatively interpreting 10 USC 2667. It permitted land leases to private interests, if the land was neither presently needed nor officially excess.

A request for proposals, issued in March 1985 for development of a 200-unit mobile home park, sought proposals in 30 days. Selection from among 10 proposals and execution of the lease took 19 days. Ray Roeder's RINC Organization invested $8 million in the infrastructure (including an athletic field, basketball courts and jogging trails), purchase of 220 mobile homes and construction of a community center.

The Army wanted the first 50 units online by September 1985 and the whole development completed by April 1986. Performance was "incentivized" by a provision in the agreement that there would be a $500 per day late penalty, but also an automatic one-year lease increase, if the park opened on schedule. In fact, the final unit was available for rent ahead of schedule, in November 1985.

Flexibility in Design and Operation

Though brief by today's standards, the lease included important protections for both sides. <u>It was a real estate transaction, which left great discretion to the developer.</u> The lease calls for the "design, construction, operation and maintenance of a Mobile Home Park, primarily for use by military personnel and their families."

The details of the development (site planning, model selection, landscaping, amenities, etc.) were left to RINC, the owner of all the improvements, whose capital was at risk. RINC had 45 days to "submit detailed development plans and specifications for the improvements to be made" to the district engineer and 15 days were provided for government review and approval. Final "as built" drawings were due to the government 90 days after the final mobile home was offered for occupancy.

The lease was specific about RINC's maintenance obligations, but the language used was broad and flexible. A detailed management plan was to be submitted to the district engineer for approval by July 1, 1985. The lease itself provided that units were to be maintained in "decent, safe and sanitary condition" and exteriors were to be "maintained so as to represent a pleasing appearance." The lessee had to build the infrastructure and "be responsible for the construction operation, routine maintenance, major overhaul and replacement of all components, and systems or parts thereof." By contrast, current housing privatization offerings involve complex, detailed and expensive planning processes.

Special Provisions

There were some sticking points in the negotiations, which required departures from the norm by the military partners.

- RINC needed <u>permission to rent to non-military families</u>, if demand from military families did not achieve full occupancy. A 30-day notice provision was worked out. Soldiers were to get six-month leases with month-to-month renewals; civilians could only get month-to-month leases and could be forced out on 30 days notice.
- RINC also needed to be able to predict its income stream so the parties agreed on a <u>fixed-rent schedule, rather than relying on soldiers' housing allowances</u>. An initial schedule covering the first two years was incorporated into the lease. Annual increases of between 4 and 8 percent were permitted, based on the area consumer price index.
- To protect its investment, RINC needed a term in excess of the five-year maximum provided for in law, which had to be approved by the secretary of the Army. The Army agreed to a <u>25-year initial term</u>.

  The developer had to make concessions as well.

- The <u>Army would manage the tenant referral process and set priorities for occupancy</u>, including reserving units for itself and assigning occupants at a 10 percent discount. The rent constraints applied only to military occupants. Either the Army or RINC could require evictions for lease violations, failure to follow park rules and regulations, or for "good and sufficient reason."
- The Army insisted that <u>military tenants</u> — but not civilians — <u>had the option to purchase their units</u>. If a military resident exercised this option, RINC had to replace the unit within 30 days.
- The <u>installation commander retained control</u>. The lease stated that, "the use and occupation of the premises leased hereby shall be subject to the general supervision and approval of the officer having immediate jurisdiction over the property and to such

rules and regulations as may be prescribed by him from time to time." The secretary of the Army was the final arbiter of disputes. While not initially problematic, this led to serious complications in the 1990s.

- Some income from a planned mini-storage facility was to be used for the benefit of the tenants. Military tenants were to be rebated 35 percent of the income and a further 1 percent would be contributed to the Community Service Fund to support the Community Council and the Community Center. Although the mini-storage facility was never built due to a reassessment of market demand after the lease was signed, the principles involved are noteworthy.

The Financing Package

RINC financed the development with a conventional loan from the small, Sacramento-based Point West Bank. The term was 25 years. No interest-risk penalty was associated with the land lease arrangement or the military's right to abrogate the lease. Because Roeder was a sole proprietor, the loan was a recourse loan; the bank could go against Roeder's full assets in the event of default. The favorable terms were a function of a long-standing positive relationship between the bank and Roeder and his personal guarantees, but full due diligence was performed by the bank.

When Point West was absorbed into a larger banking institution in 1988, the deal was refinanced at 8.5 percent. The term remained consistent with the 26-year expiration date of the lease (25 years plus one year for timely performance). Based on the net operating income, Roeder was able to increase his loan amount and provide himself with a sizeable cash return on his initial investment.

Lease Termination Provisions

In addition to the standard non-performance termination clauses and conditions relating to restoration of the property, the lease contained extra protections for the parties. The lessee could terminate upon 60 days notice. As stipulated in RINC's proposal, the lease limited the military's right to terminate the lease to "any national emergency declared by the President or Congress," if the secretary of the Army deemed it necessary or if termination was "required for military purposes or necessary in the interest of national defense."

RINC needed this provision to secure its financing, but obtained no hold harmless provisions, if the lease were terminated for this reason. Finally, although permitted by Section 2667, the lease did not provide the lessee with the right to buy the land, if the Army no longer needed it. This omission proved problematic after the base closure action.

Applicability of Local Codes and Taxes

Section 2667(e) provides that a lessee may be taxed by the state and local government. All parties recognized from the outset that this development would be unique on the installation and that private ownership and potential civilian occupancy required deference to adjacent local governments. Therefore, the lease subjected the development to local laws. Section 11 specifically required that the lessee pay local taxes and assessments throughout the lease term. Land was excluded from taxation, but RINC has paid property taxes on both the infrastructure and the mobile homes.

Section 9 required the lessee to "comply with all applicable laws, ordinances and regulations of the State, County and Municipality" and Section 23 cites specific applicable codes including the California Mobile Home Parks Act, the Monterey County Building Ordinance and current issues of the National Fire Code. The section concludes with a sweeping provision that the lessee had to adhere to "all other Federal, State and local laws, codes, ordinances and regulations pertinent to the construction, operation, repair and maintenance of the mobile home park."

Lease Amendments

The lease was amended five times. In 1985, the first two clarified road access to the development, provided RINC with the one-year incentive extension and modified rents to include a four-bedroom, double-wide unit. When RINC brought in its model homes, the Army agreed to test the market for double-wide units, although the original proposal only contemplated "single-wides." When demand proved brisk — demonstrating that some families would pay more than their housing allowance for a larger unit — the Army agreed to have 38 double-wide units included in the development. (The Air Force currently sanctions "buying up" in privatized housing when demand from targeted households is weak.)

In 1991, the Army agreed to allow a 10-year lease term extension and an increase in the number of units by 35 to 256. Also, the Army could begin charging fair market rent for its land during the second 10-year term beginning in 2011, if the secretary of the Army determined that no military demand existed for the units. As discussed below, the additional units never were placed in service.

When the fourth amendment was executed in 1993, Fort Ord had been scheduled for closure by 1998. Changes were made so that the development could transition from military family occupancy to civilian occupancy. The Army reduced the waiting period for units to be rented to civilians, if no military applicants were available, from 30 to four days. The amendment granted a permanent access easement to RINC, eliminated the purchase option for military families and eliminated the rent controls on the units for non-military residents.

The final amendment reduced the size of the leasehold to approximately 50 acres, accommodating the Army, which had sold a portion of the site to the local school district prior to the execution of the leasehold and which wanted to sell a second small area to the city of Seaside.

A Bump in the Road

When the third lease amendment was executed, the Army, responding to housing demand, approved an increase in the number of units to 256. RINC purchased the first 23 units for approximately $1.2 million. In part as a result of a turnover in command, these units never were installed on the site. When the closure decision was announced, the military rationale for permitting the additional units no longer existed. Discussions continued between RINC and the command structure at Fort Ord, but failed to resolve this impasse. For its part, recognizing that there would be a dip in the market as a result of closure, RINC was loath to incur additional expenses until the market stabilized.

Anticipating the closure, RINC initiated the process of trying to purchase the site, which had been annexed into Seaside. Since Seaside did not look favorably on mobile home parks and RINC would need the city's approval after land purchase, it seemed unlikely that RINC would ever be able to use the 23 new homes. In 1997, RINC began selling them off. Losses associated with interest payments on the purchase loan and resale of the units topped $300,000.

This loss illustrates the risks associated with divergent perspectives. Both parties wanted to meet military need, when the lease amendment was executed. Beyond that, the Army's rationale for preventing installation of the units related to command's perception of "acceptable" housing for soldiers. RINC, on the other hand, made a business investment relying on a legal agreement with the military. When the attitude of Fort Ord's leadership toward the mobile home park worsened, Roeder suffered a significant (and arguably unreasonable) financial loss.

Transition

The Fort Ord closure process was completed by 1998. The loss of about 10,000 military families to the local economy depressed the housing market. In 1993, Brostrom Park had a vacancy rate of 33 percent, but it was back to full occupancy by the end of 1994. Occupancy is now at 100 percent. In 2002, monthly market rents ranged from $980 to $1,190, about 5 percent below the local market. By contrast, rents would have been at $833, $865 and $1,043 for military families. Because a purchase option had not been included in the lease, the site acquisition process was arduous and, indeed, the purchase did not occur until 2003.

Roeder's Advice to Parties Contemplating New Public Private Partnerships

Ray Roeder considers his partnership with the Army a success, but he opines that:

- The government is a difficult partner, because it doesn't understand the "bottom line" constraints of business;
- Partnerships work best when the focus is on results, not process;
- Housing partnerships should only be considered when there is a viable external housing market;
- The private partner must foresee as many eventualities as possible and negotiate tight working rules dealing with contingencies; and
- Lease administration should be vested primarily with civilians, who can preserve institutional memory about agreements and insulate developers from inappropriate command interventions.

Protections for the private developer not initially built into Brostrom Park, but which should be included in any new deal, include: a purchase option in the event of BRAC or downsizing; orderly provisions for transition to civilian use, including elimination of rent caps for civilians and easements for ingress and egress; and less open-ended rights for intervention by commanders.

Conclusion

Current military family housing privatization projects are far larger and more complex than Brostrom Park; they involve the sale of existing housing units on long-term ground leases. Even so, lessons can be learned from Brostrom Park: bottom-up planning; manageable scale; effective leveraging of underutilized government assets; early deference to local government needs and expectations; sensitivity to market conditions; provision of flexibility in design, construction and operations with appropriate military oversight; quick turnaround on government approvals; effective performance incentives and sanctions; and rental options that allow military families choice in unit size and type.

Chapter 8

MIT LINCOLN LABORATORY MODERNIZATION AND EXPANSION PROGRAM

By David G. Woodbury

The purpose of the Modernization and Expansion Program (MEP) was to consolidate a number of Lincoln Laboratory technical groups from off-site locations back to the core research facility while providing a state-of-the-art research facility to conduct research programs of critical national importance.

Financing Using the DOD Leasing Authority

Planning for the MEP began in the mid-1980s. The Air Force had proposed using the DOD leasing authority in 10 USC 2667 — with an amendment revision — as the financing vehicle in lieu of military construction funding; the revision to Section 2667 was obtained in 1988.

In 1989-1990, the laboratory conducted a competitive review process resulting in the selection of Spaulding & Slye, of Burlington, Mass., to serve as the project developer. The MEP project encompassed construction of a 490,000-square-foot, state-of-the-art research facility, a 900-car parking garage, requisite site preparation, and utilities to service the new facility. Construction commenced in late 1990. The parking garage opened in October 1992, and the new South Laboratory was occupied beginning in December 1994.

MEP Leases

In keeping with the leasing authority in 10 USC 2667 and associated privatization regulations, the U.S. government acting through the Air Force leased Hanscom Air Force Base land to the Massachusetts Institute of Technology (MIT) at a nominal rate ($1) for a 30-year term to build the South Laboratory R&D facilities.

The ground lease provides MIT the right to sublease the land to the developer (Spaulding & Slye). This ground lease or land lease is the controlling instrument in terms of the obligations owed to the government. The lease grants to MIT its necessary interest in the premises, establishes MIT's project construction obligations, and provides for reimbursement of lease-contingent termination costs through operation of certain special termination clauses in the Air Force prime contract for the operation and management of Lincoln Laboratory by MIT.

The second MEP lease is the developer sublease between MIT and Spaulding & Slye for a 20-year term or the discharge of the subleasee construction mortgage, whichever event occurs first. Through this instrument, MIT passes on to Spaulding & Slye the obligation to construct the South Laboratory, parking garage and associated site improvements that constitute the MEP project.

This sublease also obligates Spaulding & Slye, as subleasee, to comply with the terms and provisions of MIT under the ground lease. Spaulding & Slye remained primarily responsible for various construction-related obligations, including without limitation the obligation to construct the MEP project in substantial accordance with the terms and provisions of the ground lease.

The third MEP lease instrument is a 20-year building lease between MIT and Spaulding & Slye. This instrument obligates MIT through Lincoln Labs to pay rent to Spaulding & Slye in exchange for the laboratory's use of the MEP facilities. At the conclusion of the building lease, title to the premises transfers to MIT. At the end of the ground lease, title reverts to the U.S. government.

David G. Woodbury is the head of the Administration Division for MIT Lincoln Laboratory in Lexington, Mass.

Chapter 9

A REVIEW OF ENHANCED-USE LEASING IN THE DEPARTMENT OF VETERANS AFFAIRS

By Michael Simmons and Tony Kushnir

In October 1991, the U.S. Department of Veterans Affairs (VA) obtained authority to enter into enhanced-use leases for the lease of its properties for non-VA uses. At the time of its enactment, this authority was rather innocuous in that it was perceived simply as a long-term lease authority. At that time, veterans groups perceived the authority as a "backdoor" disposal authority.

In the 13 years since obtaining this authority, however, VA has used this authority to pioneer a new view and approach in the management of its facilities and properties. Using this authority, VA is able to develop and then incorporate a capital asset management program into its strategic mission objectives. This capital asset management program relies upon a central principle that each VA-controlled property must be managed in a manner that promotes or enhances a VA program or mission. Such management may be either by direct VA use or by its redevelopment by non-VA (public or private) users.

Some of the approaches (such as transactions involving VA lease of space within newly constructed facilities on the leased land) have generated controversies, while other transactions have been highlighted as best practices within the federal government for asset management. In the intervening years, the military services obtained enhanced-use leasing authority through the enactment of Section 2812 of the FY 2001 National Defense Authorization Act (P.L.106-398), which significantly revised 10 USC 2667. The National Aeronautical & Space Administration (NASA) obtained its enhanced-use leasing authority in Section 315 of Title IV of the FY 2003 omnibus appropriations act (P.L. 108-7). This chapter will examine implementation of this authority within VA in the context of its ability to achieve the objectives sought and the challenges that still remain.

Background

At the heart of this program is VA's enhanced-use leasing authority and the mission of the department. Veterans Affairs, the second largest agency in the federal government in terms of the number of employees, has the unique mission of delivering comprehensive assistance and benefits to the nation's veterans and their families. VA, through its Veterans Health Administration, is one of the largest direct providers of health care in the world. The department also is a major land-holding agency, with an extensive and diverse portfolio of properties, including more than 23,000 acres of land and more than 4,600 buildings at approximately 270 locations, in addition to more than 550 leased spaces nationwide.

To manage its property, VA had all of the traditional authorities available to federal agencies. However, in many instances these authorities did not adequately address the needs of specific mission or developmental issues. Because of these limitations, exacerbated by ongoing budgetary constraints, privatization and income-generation programs have become increasingly important to the department. In an effort to obtain significant operating cost reductions and to pursue alternative resources for veterans programs, VA began to increasingly focus on new programs, such as enhanced-use leasing. Traditionally, VA properties have been viewed as cost centers. In contrast, the enhanced-use leasing concept was designed to:

- Encourage VA program and facility managers to view VA property holdings as program resources and potential revenue centers;
- Attract other public or private sector investment in VA facilities through broad-based, market-based opportunities rather than relying upon current or future federal programs;

Michael Simmons and Tony Kushnir both practice with the firm of Patton Boggs LLP in Washington, D.C. Simmons is the former privatization legal counsel with the VA. Kushnir served for many years as director of the VA Asset & Enterprise Development Office. Michael Simmons can be reached at msimmons@pattonboggs.com. Tony Kushnir can be reached at akushnir@pattonboggs.com.

- Place available VA property into more productive uses and expand the local tax base;
- Enable VA to acquire otherwise unaffordable services or facilities; and
- Allow VA to realign its property holdings to reflect current and projected program requirements.

What is Enhanced-Use Leasing and What Makes it Work?

Enhanced-use leasing is a cooperative arrangement for the development of VA property, under which that property is made available to a public or private entity through a long-term lease. The leased property may be developed for non-VA and/or VA uses, and in return for the lease, the department obtains fair consideration in the form of revenue, facilities, space, services, money or other consideration.

Originally enacted in the fall of 1991, the enhanced-use leasing authority is now codified at Section 8161 through Section 8169 of Title 38, United States Code. The technical elements of this authority are:

- The term of an enhanced-use lease may be up to 75 years;
- The site to be leased must be controlled by the Secretary;
- All uses must be consistent with and not adversely affect the department's mission;
- VA may use "minor" construction funds (up to $4 million) as a capital contribution in connection with an enhanced-use lease;
- VA may purchase services, space or facilities in connection with the lease;
- VA must hold a public hearing at the location of any proposed enhanced-use lease to obtain veteran and local community input; and
- VA must provide notice to its congressional oversight committees prior to entering into an enhanced-use lease.

One of the major elements of the enhanced-use leasing authority is that unlike traditional federal leasing authorities in which proceeds must be deposited into a general treasury account, the enhanced-use leasing authority provides that all proceeds (less any costs that can be reimbursed) are returned to medical care appropriations. The ability to keep proceeds created an economic incentive for VA and its property managers to fully utilize their existing capital assets and to view these assets as potential resources to fund needed programs or facility requirements. To underscore Congress's intent to provide VA with sufficient latitude to undertake and practice asset management, the statute addresses several key legal issues that are critical to successful public/private transactions by:

- Providing the department the ability to enter into long-term agreements to enable amortization of private sector capital investments;
- Clarifying the ability of the department to undertake this authority from the variety of other substantive and procedural laws relating to government procurement, management and disposal of property or services;
- Enabling the department to enter into these agreements in a timely fashion to address market demands;
- Providing the department with the flexibility to address a spectrum of market and financial conditions to address specific project requirements so long as the activity was within established statutory requirements and department mission.

Finally, central to the enhanced-use leasing authority is its close coordination with and reliance upon the local government and community as full partners in the development process. There are two aspects to this participation. First, in order to maximize project efficiencies and minimize development costs, the department relies, to the greatest extent possible, upon local building codes, safety requirements, construction standards and local government inspection services as they pertain to any non-VA development. If the project involves direct VA control over the management and operation of a facility or if VA occupies a significant portion of the enhanced-use development, the project is considered in the context of applicable VA standards. In such instances, VA requirements are reviewed in the context of how such standards integrate with applicable local codes and standards.

The second, and perhaps the more important reason why enhanced-use leasing stresses local government and local community involvement, is to assure that the development is integrated in the local planning process. Close integration enables VA to spot any potential community concerns (such as scope and intensity of the development, traffic impacts, and business impacts) and to address those issues early on in the process.

What Types of Projects Have Worked?

Obviously, sound development economics are the foundation of enhanced-use projects. But some factors within VA's control can contribute to the likelihood of success. Enhanced-use leasing works best when government requirements can be defined in private sector terms. For instance, a VA administrative facility is not significantly different from a commercial office building; and transient lodging for outpatients or families visiting a VA hospital is not unlike a typical budget hotel.

This allows the private sector to construct and operate in its customary manner. VA then benefits from the efficiencies of organizations and delivery processes that have been honed over time by the developer/lessee. VA also can improve the value of its projects by working to reduce project uncertainties, private sector risk and the cost of borrowing capital. This can be achieved through a variety of means such as use of local building codes, participation by VA in entitlement discussions with local authorities, or by addressing concerns of potential financing sources early in the development process.

To date, VA has successfully completed a number of projects, including office buildings, cogeneration facilities, parking facilities, community nursing homes, senior living residential facilities, medical facilities, child development centers and elder day care centers, single-room occupancy housing (homeless shelters), and VA golf courses (management and operation). Examples of this success include the following projects:

- **VA Medical Center Indianapolis:** Enhanced-use lease of substantially an entire medical campus (22 acres of a 30-acre facility including the core hospital buildings) of a division of the VA Medical Center (VAMC) at Indianapolis. The facility was leased to the state of Indiana for use as a psychiatric hospital. The state's consideration of $15.7 million included: establishment of a $9.8 million trust for provision of facilities, space and other services for VA programs in Indiana and elsewhere; state responsibility for utilities, maintenance, repair of other VAMC facilities; and a $200,000 cash payment. More importantly, by utilizing the enhanced-use leasing authority, the department saved more than $5 million a year in operational costs by consolidating its activities at the remaining VAMC division. The state benefited by obtaining an up-to-date medical complex at about half the cost of new construction. Since completion of the transaction and exchange of the original consideration, the state's trust has provided more than $5 million in equipment and services to VA without the state's trust having touched the original endowment.
- **VAMC Houston:** Enhanced-use lease of VA property on the VAMC campus to a developer for the collocation of a new veterans' benefits regional office building. Using its enhanced-use lease and a "lease-purchase authority" then available, VA solicited a developer to design/build the VA office building (including a 500-car surface parking facility) and thereafter to develop the remainder of the leased site for compatible non-VA uses. Under the terms of the arrangement, the developer also would operate and maintain the leased property, including the VA regional office building and the parking lot. The results were extremely favorable for the department and the developer. The developer combined the VA requirement with a retail center serving VA employees and visitors to the neighboring Texas Medical Center. VA obtained its building substantially under budget and received discounted charges for operation and maintenance of the VA building and parking. In addition, the department also receives a percentage of the proceeds generated from the private development. The present value of the financial benefits to the department resulting from this lease is $17.7 million.
- **VAMC Washington, D.C.:** Using the enhanced-use leasing authority, the VAMC solicited for and thereafter selected one of the leading U.S. child care providers to provide child care services to employees of the VAMC and neighboring hospitals. The parcel made available in this instance was a portion of a VAMC parking lot that was located near a private children's hospital. In return for the market opportunity, VAMC obtained priority placement for its employees at discounted user fees. The center is entirely operated on a user fee basis with no underlying VA financial commitments.
- **VAMC Danville, Ill.:** Enhanced-use lease of approximately three acres of land and three unused and dilapidated historic buildings on the VAMC Danville campus for a term of 35 years to a local developer. Prior to entering into the transaction, VA unsuccessfully attempted to convey the buildings on a no-cost basis to state and local officials. The dilapidated condition of the buildings made any such conveyance uneconomic. As a result, the buildings were considered unmarketable. VA worked closely with local and state officials to secure historic tax credits for the transaction and to secure a developer who had experience with historic renovations. Upon the developer's selection, the developer was able to use the tax credits in the financing of the transaction. The developer renovated these structures to accommodate approximately 90 single-bedroom, low-cost, senior citizen apartments. Under the terms of the enhanced-use lease, the developer renovated the

buildings and assumed responsibility for their operation, maintenance and management as senior housing. As consideration, the developer provided priority placement to veterans and makes cash payments to VA. In addition, the developer will purchase services from the VAMC under separate agreements. There are no VA occupancy guarantees.

The diverse objectives attained by VA in these projects show the breadth and flexibility of this type of authority. In Houston, the enhanced-use leasing authority was used as a revenue generator to obtain resources and services at a lower cost. In the Washington, D.C., child care project, the authority was utilized as a means to address employee benefits issues. In Indianapolis, the authority was used to achieve operational and health care management objectives while in Danville, it was used as a means to dispose of property not otherwise marketable and also comply with historic preservation requirements. The Houston and Indianapolis transactions were cited as successful applications of sound asset management principles by the U.S. General Accounting Office in its February 1999 report to Rep. Stephen Horn of the House Government Reform Committee, "Public Private Partnerships: Key Elements of Federal Building and Facility Partnerships."

VA Goal: Assume Full Control of All Financial Aspects

The department's program, however, has not been without controversies. In the past three years, the department entered into enhanced-use leasing transactions totaling nearly $130 million wherein VA leased back space or purchased energy from facilities developed on VA property. At the heart of these transactions were VA's attempts to acquire space or services on a cost effective basis and yet deal with the requirements and criteria of the White House Office of Management & Budget's Circular A-11 as it pertains to the scoring of federal obligations and capital leases.

In the Chicagoland area, VA entered into several enhanced-use leasing transactions providing for the collocation of a Veterans Benefits Administration (VBA) regional office building, a 1,500-space parking garage and two energy plants using a structure wherein the lessee was a specially created entity and the developer provided construction services on a fee basis only. The specially created entity used the municipal bond market to access low-cost financing and the developer assumed full financial responsibility for project development. VA undertook a similar effort for the collocation of another VBA regional office building on the VA campus in Milwaukee.

Because this approach included VA as the sole beneficiary of the specially created entity and further provided for VA assumption of full operational risk of the development, the Congressional Budget Office (CBO), in a February 2003 report, "The Budgetary Treatment of Lease and Public/Private Ventures," questioned whether these types of transactions were, in essence, capital leases or lease-purchases. If so, CBO argued that such transactions would need to be recognized as such and scored in accordance with OMB Circular A-11.

In essence, in an effort to achieve the lowest cost in these transactions, VA consciously made an effort to assume full control of all of the financial aspects of the transactions rather than relying on the transaction (and its costs to VA) being determined by the private market. For example, VA's rent for space in a newly developed building on VA property was directly tied to actual costs and had nothing to do with what the actual rental market for comparable office space. In squeezing out private sector profits and risk, VA had to assume operational risks for the development in order for the projects to be financeable.

As such, VA overstepped the rationale and purpose of the enhanced-use leasing authority (much less OMB Circular A-11) by unduly stifling or eliminating private sector market risk and substituting government control. With minor modifications, these transactions could have readily been structured in a manner that would have enabled the projects to be developed based on risks and rewards contained in the private sector, yet would have preserved VA's overall objectives namely — maximizing underutilized VA properties and obtaining low-cost office space/services while assuring that VA interests are protected in the development and operation of private development on its properties.

Lessons Learned

In implementing its enhanced-use leasing authority, VA has discovered several key points to developing a successful public/private development program. The single most important is the manner by which the agency views the enabling statute itself. This authority must be used and viewed by the agency as an asset management tool that provides the flexibility to enable the agency to be innovative in its approach to secure private investment in its facilities. While preserving the integrity of governmental processes, the public agency's implementation procedures must be tempered to be responsive to the broad span of market, environmental, political, and legal issues that arise in development of property.

The authority should not be viewed as a substitute for a facility construction program wherein the agency assumes full control of all of the development involved. Agency officials involved in the process must not only be committed to the effort's success but also to the legitimate requirements of the private sector. To accomplish these objectives, the agency must participate fully with the developer/lessee in a project's development, financing and local community review while recognizing the limitations and responsibilities of the parties involved.

Finally, "stovepiping" project development by vesting control over program development within a single office ignores the legal, fiscal and program issues that arise from such development. Successful implementation within an agency is enhanced by establishing project teams with representatives from the various departments and disciplines involved.

Chapter 10

STABILITY SOLID AS BEDROCK: PRIVATIZATION AT THE FORMER NEWARK AIR FORCE BASE

By Wally Horton, Joe Renaud, Rick Platt & Michael M. Brown

Seismic stability in central Ohio was a primary reason for the selected location of Newark Air Force Base. This characteristic coupled with an existing facility built to withstand the shock of a 50-ton press created an ideal foundation in 1960 for the newly created Air Force Metrology & Calibration (AFMETCAL) program and also satisfied the need for a source of repair for the then new Intercontinental Ballistic Missile (ICBM) program.

1993 BRAC Announcement

Central Ohio stability arose in a different form after the 1993 base closure announcement. The strong, stable leadership team formed by community leaders, base personnel and the eventual contractor group assured that this unique asset would have a new life through privatization. Those involved claim that Newark would be the first successful privatization-in-place (PIP) of a military base.

Stability was needed because the road to privatization was anything but smooth. The complexity of the closure led many to believe that privatization was not a viable option. There were too many uncertainties and there were multiple competing interests with different visions for the Newark closure. Despite the uncertainties, the October 1996 closure date was firm.

With the announcement made, the Newark and Heath communities worried about potential dire economic consequences. Gone was the $200 million economic impact on a small community located 30 miles east of Columbus. Gone also were 1,800 quality, highly technical, well-paying civilian jobs along with 70 active duty military and 120 Air Force Reserve positions.

A plan to implement privatization-in-place at the closing Newark AFB helped retain almost 1,000 high-tech jobs and produce a $200 million annual economic impact.

The outright closure was problematic. The Aerospace Guidance & Metrology Center (AGMC) at Newark AFB had a unique mission. AGMC managed the AFMETCAL program, which would continue to exist. Newark AFB also was the Air Force Center of Excellence for guidance system repair. It provided repair services for the Minuteman and Peacekeeper Missile Guidance systems, most of the frontline aircraft inertial guidance systems, and three joint service systems for the Army and Navy. Each of these systems continued to require a source of repair, as this work was not performed elsewhere.

Wally Horton was the first AGMC technical director. In 1993 he came out of retirement to serve as chairman of the reuse commission. He subsequently served as director of the Heath-Newark-Licking County Port Authority.

Col. Joe Renaud, USAF (retired) was the AGMC commander from 1991-1996. He continues to live in Newark and is presently the governor's aerospace and defense advisor. He can be reached at jrenaud@odod.state.oh.us.

Rick Platt is the executive director of the Heath-Newark-Licking County Port Authority. He can be reached at rplatt@hnlcpa.com.

Michael M. Brown is a freelance writer from Licking County, Ohio.

With the programs continuing, the work of AGMC had to be sustained at previous levels throughout the closure process and would need to be reconstituted without interruption after closure. The essence of the work was in the unique facilities, high-cost integrated equipment, and the skills of the existing workforce. This was a difficult undertaking under any conditions, but the morale of the highly skilled civilian workforce held the key to success.

Like any civilian workforce, these people had deep roots in the local area and were not very mobile. At the time, it was estimated that fewer than 15 percent would be willing to move. If morale was lost, critical weapon system support would be degraded during and after closure. Many inside and outside the Air Force thought that program support would degrade to unacceptable levels.

Only Viable Option: Privatization-in-Place

Ultimately, privatization-in-place of the center's workload became the only acceptable solution. It saved the day both for the Air Force and the local community. The workload was transitioned seamlessly and quality customer support never missed a beat, thanks to the faith and hard work of many determined men and women. In 1993, however, privatization was not acceptable to weapons system managers, the Air Force Materiel Command (AFMC) headquarters or the original equipment manufacturers.

In the chaotic days of 1993 and 1994, the closure outcome was unclear. Though the original directive spoke of privatization, many in and out of the government believed there were better options. Within days of the closure announcement in March 1993, all post-closure options were back under consideration. These options included movement of the entire workload to another organic base and movement of the workload to the private sector in another location. What had been clear in early March of that year became totally uncertain. Morale had been expectedly poor with the closure announcement, but it was downright low with the additional uncertainty in the scenario for the closure.

Multiple teams worked through several options and collectively maneuvered along a rocky road between vested interest and workable solutions. They were in the middle of a web of many powerful stakeholders, such as members of Congress, Department of Defense offices, management and union organizations within Newark AFB, the BRAC Commission, the General Accounting Office (GAO), the state of Ohio, and local interests in Newark, Heath and Licking County.

In March 1993, Wally Horton, the first AGMC technical director, came out of retirement to help lead the effort to save the base. The community wanted to reverse the decision, so it turned to the man who knew the most about the work inside the gates. Horton rallied retirees, local officials, community leaders and the congressional delegation. He sent a loud and clear message to the BRAC Commission and to Washington that the work was critical and must be preserved either by retaining Newark AFB, the preferred option, or through privatization-in-place. His message was received.

By the end of the Commission's review, it became evident that the commission believed a private contractor, employing the Newark AFB civilians at the current Air Force facilities, could do the work. The commission agreed with the original Air Force recommendation for privatization-in-place and included that recommendation in the commission's report, which was forwarded to the president.

Privatization Option Still Questioned

After the closure was approved in September 1993, the AGMC commander was directed by AFMC to put all the original options back on the table. Privatization-in-place was not, at that time, a popular outcome for many of the stakeholders. While the closure language clearly stated the required direction, the closure began to flounder while the language was re-interpreted and all possible options again were explored.

The AGMC director of financial management, who was also responsible for AGMC planning, coordinated the analysis, while the AGMC metrology and maintenance directors led the effort to work out the technical problems of moving the workloads under the various scenarios. Teaming with AGMC was a group from AFMC headquarters representing the directorates of planning, finance, civil engineering, logistics and requirements. Added to the headquarters group were systems managers from the air logistics centers (ALCs) in Oklahoma City and Ogden, Utah.

The AGMC commander had the job of keeping the group moving in the same direction for a timely solution, as the clock was ticking. The Oct. 1, 1996, closure deadline was immovable regardless of the starting date. For every successful leap, there were additional hurdles to overcome. For nearly three years, the community on and off the base held its collective breath as the ground was literally shifting under its feet with the latest proposal, rumor or possibility of permanent closure.

While this external work was taking place, the internal work was more critical. The essence of the capability was in the personnel. The people of AGMC were highly skilled and the pay grades reflected this point. The average pay at Newark was higher than at any of the five ALCs. If there was to be a successful outcome, regardless of the scenario for closure, it would only be with the full cooperation and help of the workforce.

Almost immediately the AGMC staff recognized this and swung into action. AGMC formed a team to address all workforce issues throughout the closure. It consisted of the civilian deputy to the commander, the AGMC personnel director and the local president of the Association of Federal Government Employees (AFGE), along with key members of their staffs.

The issues outlined by this team fell into two main categories: the morale of the workforce and the retention of the personnel skill sets during the closure and beyond. Both factors were essential to support the mission and attain an effective transition to what was at the time an unknown outcome.

Strategically only two choices were available. AGMC could choose a path of workforce retention, where the base worked to keep the most knowledgeable people on the job until closure, or a path of individual choice, where each person could decide his or her own future with as many options as possible, regardless of the impact to the AGMC capability.

Though not obvious to all, the commander wanted the choice of flexibility for the workforce. While he was concerned that the skill base would deteriorate severely before the October 1996 closure, he knew that morale was crucial. He felt that with strong morale and an innovative approach, the other problems could be overcome. This selected strategy was considered highly risky by many of the stakeholders.

The personnel strategy team went to work developing communications and personnel assistance tools. Communications consisted of many integrated efforts that included: town hall meetings; small group sessions where base personnel were scheduled to meet with the commander in groups of 15-20 without any supervisors present; supervisors' quarterly meetings; closed circuit TV call-in shows, where anonymous calls could be made live to a panel consisting of the commander, the AGMC financial management and personnel directors, and a local union officer; and an additional commander's hotline dedicated to closure issues where every two weeks three to four pages of the base newspaper were dedicated to answering questions. This process was in addition to the normal communications flow.

The base teamed with the state of Ohio to provide every possible means to help the employees make choices, and once made, to achieve those choices. This resulted in people leaving the base very early. For example, the base lost its senior civilian civil engineer and environmental manager in 1993. Many of the key supervisors, managers and engineers in the critical mission workloads also were early losses, but putting choice in the hands of the individuals resulted in a workforce of highly dedicated individuals willing to overcome obstacles. One measure of success was seen in the eyes of the numerous base visitors. Visitors often would comment on the unexpectedly high morale and dedication of the workforce.

As part of the employee support plan, everyone was offered entry into the DOD Priority Placement Program (PPP) 24 months before transition. Entry into PPP started in May 1994, 29 months before closure. Since the workload would continue, the tools of recruitment, temporary promotion and a much-improved training program were used to overcome the high turnover due to early loss of critical skills.

Weathering constant turmoil while moving toward privatization required a team effort that extracted the best in human ingenuity, determination and spirit. The personnel assistance tools eventually led to a National Award for Excellence in 1996 from the National Association of Counties for outstanding employee assistance programs.

With the closure outcome still uncertain in 1994 and 1995, AGMC worked with an AFMC Acquisition Strategy Panel (ASP) to specify contract approaches for the Newark workload. The ASP separated the metrology work from the guidance system repair work, but kept the contract milestones the same.

The ASP explored all possible relocation options for the Air Force Primary Standards Laboratory (AFPSL) and the management portion of the AFMETCAL program. Also reviewed were the elements of the AFMETCAL program that should be retained organically in the Air Force as opposed to being placed on contract. Additionally the ASP reviewed whether these functions should be collocated or separated. There was strong consideration for moving the management to an Air Force installation, while contracting out the AFPSL and calibration technical order development at a "to be determined" contractor location.

Decision at Last: Privatization-in-Place

For the guidance system repair portion, the ASP first addressed the notion by some Air Force stakeholders that the work could be moved cost-effectively to another location. The ALCs wanted the workload moved to

ACHIEVEMENTS DURING AND AFTER THE SUCCESSFUL PRIVATIZATION-IN-PLACE

- AGMC, AFMC and the contractor team achieved a seamless transition of workload, which was virtually invisible to the customer in the field.
- The Air Force avoided an expensive (estimated at $300 million) closure and reconstitution of the AGMC capability. The cost would have been associated with moving highly sophisticated precision equipment integrated into the existing facilities, preparing new facilities, installing and testing this equipment, and building a new skilled workforce for metrology and gyroscope repair. Ability to support ongoing missions would have been almost non-existent during this transition.
- The port authority, Air Force and Boeing established an innovative facilities purchase and lease agreement assuring the Air Force workload would be sustained at a high level of support for the foreseeable future.
- The $200 million annual economic impact with about 940 high-tech workers has been sustained to the present day.
- The Central Ohio Aerospace & Technology Center (COATC), as a private enterprise in contrast to a non-taxable federal installation, is the largest source of revenue for the city of Heath. COATC has paid more than $1 million in property taxes since the privatization took effect.
- The port authority is entirely self-sustaining and manages the former Newark AFB without any government subsidies.
- The former Air Force base buildings are now completely leased.
- The AFMETCAL Program management functions still operate on COATC property through the Bionetics Corp., which operates the AFPSL. This assures the necessary synergy between laboratory operations and program management.
- Since privatization, the PIP contractors have improved productivity by increasing customer system reliability and reducing repair man-hours.
- The port authority continues to install cutting-edge property management techniques and has actually reduced property management expenses over the years with lease charges to PIP contractors down 32 percent versus four years ago.

their locations. Private contactors initially sought to move specified mission work to corporate sites far from Newark. This movement would have "orphaned" a portion of the work. Since no location was reasonably able to receive all of the work, this approach would have resulted in a net increase in cost for the movement of the entire workload.

Ultimately privatization-in-place was chosen, not by the Air Force, but by the contractors. PIP occurred through an ASP decision to write a single contract for the entire repair workload, requiring the selected contractor to determine the most efficient location for supporting the entire workload.

It was only possible to have the AFPSL remain in the Newark AFB facilities if the repair work was to remain. As nearly all mission work was performed in a single 750,000-square-foot building, any partial occupancy would be unduly expensive. The uncertainty was settled when these contracts were awarded in December 1995 to a Rockwell division (later purchased by Boeing) and Wyle Laboratories.

A consortium of businesses, led by Rockwell, won the guidance system repair contract providing the first concrete indication to the workforce that privatization was a reality. This also provided an opportunity to retain the AFPSL facilities and collocate the remaining organic AFMETCAL employees with the Wyle-managed AFPSL by creating an Air Force detachment that would report to Warner Robins ALC in Georgia.

Due to contracting restrictions, there was little public knowledge of the sensitive behind-the-scenes work in achieving this outcome. There were numerous objections that had to be resolved before the decision was made to retain the essential mission of repair and metrology at Newark AFB. In one form or another, the answer to each objection was tied to the funding available for closure. If the cost escalated, the savings to the Air Force for closure would disappear.

Some of the challenges and solutions along the road to privatization at Newark included:

- Issues over proprietary rights nearly destroyed the acquisition strategy. Ultimately these objections were overcome through concessions from some contractors, potential royalty agreements with others, and a determination that not all proprietary data was needed, given the skill set possessed by the workforce. Rockwell formed a consortium of contractors that still exists today with Boeing, which won the contract. As this consortium held the data rights, the theory that the workload could be supported after a competitive win never had to be proven.

- Another vital element was convincing the ICBM Program Office at Ogden AFB to keep the ICBM package in the overall repair contract. It was unlikely that there could be successful privatization without the ICBM element, because this was a significant portion of the facility-dependent workload at Newark.

- The fact that the sensitive equipment would be extremely expensive to move or duplicate elsewhere, eventually helped make the case for privatization. The unique equipment could not be in two places at once, so seamless transition could not exist. As the ASP was reluctant to independently make this conclusion, the competition process analyzed the courses of action and provided the best option.

Port Authority as the Local Redevelopment Authority

In parallel, the community ably met a key challenge. The reuse commission successfully addressed the Air Force Base Conversion Agency (AFBCA) issue of assuring that the community was fully capable of accepting and managing the base property while facilitating a successful transition from the Air Force to a contractor-run program. For this reason, the Heath-Newark-Licking County Port Authority was formed. This entity was considered by the AFBCA and the community as the best organization to accept and manage the property.

On the day of closure, Oct. 1, 1996, the Newark privatization was touted as a model for others to follow by Air Force Secretary Sheila Widnall. "Newark has carved a path for thousands of others who are just beginning a similar journey," she proclaimed. Some 10 years later, it is still regarded by those who know the operational challenges, as the first and most successful privatization-in-place — as highlighted in the accompanying "Privatization-in-Place Achievements" insert.

This model PIP program is nationally recognized for continued mission success and outstanding customer service. It remains a pillar of sustained, economic development strength for Licking County and Ohio as well.

After purchasing additional property, the city of Heath turned the former Newark AFB into a 350-acre business campus, now known as the Central Ohio Aerospace & Technology Center.

How to Make Privatization Work

Privatization at Newark has caused many to ask, "How can we make it work here?" The simple answer is: people. It could not have worked without the Air Force, community leaders and the civilian workforce at the base all coming together.

Moreover, the final privatization result was indeed a win-win for the Air Force and the community. Success came when more people recognized what the Newark community knew: privatization of the base could continue offering seamless customer service and save a great deal of money compared to closing and moving out. This was the best option for the Air Force and coincidentally for many of our people.

A recent investment in additional property at Heath has turned the 69-acre former base into a 350-acre business campus, now known as the Central Ohio Aerospace & Technology Center (COATC). Six of the top 20 DOD contractors (Boeing, BAE Systems, Lockheed Martin, Northrop Grumman, Raytheon and Honeywell) currently have operations at COATC. The mix of private and public sector operations and the $200 million economic impact combine to make COATC among the largest concentrations of the aerospace and defense industry in Ohio.

Thus, a large part of the port authority's daily mission is working with an array of commercial and industrial prospects to help realize future growth potential. The bedrock that was the magnet for Newark AFB in the past now forms the foundation upon which the Heath and Newark communities will build for the future.

Chapter 11
PRIVATIZATION OF THE NAVAL AIR WARFARE CENTER AT INDIANAPOLIS — A CONTINUING SUCCESS STORY

By Michael Sargent

The Naval Air Warfare Center (NAWC) at Indianapolis remains the largest and most successful privatization in the history of the Department of Defense. The center's mission of providing engineering design and development for military electronic systems was still required by DOD, in spite of the decision to include NAWC on the 1995 base closure list.

Plans to close the base and move the majority of personnel and programs to other Navy sites held a high risk of losing more than 2,000 civilian employees, over half of whom were engineers and scientists.

Impetus for Privatization

Given the dismal success record of other post-BRAC attempts to transfer other large groups of employees, the mayor of Indianapolis, Stephen Goldsmith, proposed to transfer the cost of ownership for the existing NAWC through privatization. The Navy realized that privatization would accomplish many of its internal goals by avoiding significant costs to move functions and personnel, by preventing disruption of ongoing critical programs, and, most importantly, by retaining key investments in personnel.

With the realization of both parties that privatization was the best solution for the community and the Navy, a rapid implementation of a privatization plan was needed to maintain momentum for a "hot turnover." A two-phased solicitation process was utilized in which the city of Indianapolis held a four-month competition to select a company to take over the facility, hire the employees, and negotiate a contract with the Navy.

The competition was unique in that the Navy agreed to allow the city of Indianapolis to issue the solicitation for bids and perform the actual competitive selection. Knowing that a federal competition might take a year or more, the Navy agreed to a faster city-run process, utilizing input from the Navy on their critical needs as well as allowing the city to evaluate bidders on their ability to satisfy community and employee issues.

This unique approach allowed the community to address local stakeholder desires, many of which would not have been addressed in a federal solicitation. The Navy mitigated its risk by reserving the right to back out of the process if the city chose a contractor that they deemed unacceptable to negotiate a final contract with. This unique approach was critical for maintaining momentum and keeping the workforce in place.

Following the announcement by the city of Indianapolis that Hughes Aircraft (now Raytheon Technical Systems Co.) was the city's selected firm in May 1998, Hughes and the Naval Air Systems Command negotiated a multi-year contract for the performance of current and future DOD workloads at the center. The contract was signed roughly four months after contract negotiations began.

During the same period of time, necessary leasing arrangements were signed by the Naval Facilities Engineering Command, the city of Indianapolis and Hughes. In early January 1997, Hughes Technical Services Co. began operations with a workforce of roughly 2,000 employees, nearly all of whom had been government employees on Friday of the previous week. The total time from initial solicitation to the startup of the new company was less than 13 months.

Clear Privatization Success

Raytheon celebrated five years of operation at the Indianapolis site in January 2002. Raytheon had become the operator of the facility by acquiring Hughes Aircraft Co. shortly after the privatized facility started

---

Michael Sargent is a manager in the Military Installations Transformations Solutions Practice of BearingPoint Inc. Prior to this assignment, Michael served as the city of Indianapolis's senior project manager for the NAWC privatization project, responsible for all activities involving the privatization and property transfer of the NAWC site. He can be reached at michael.sergeant@bearingpoint.com.

operations. Raytheon honored all previous agreements with the city of Indianapolis and the Naval Air Systems Command, which helped to continue the site's successful transition.

A look back at the project shows that the privatization initiative has been an unqualified success. Employment at the site continues to be strong with a workforce of approximately 1,500. This has allowed the city to achieve its goal of retaining these high-technology jobs. The majority of the personnel are former employees of the NAWC, allowing DOD to protect its original investment in intellectual capital.

Workload at the facility continued to grow since the closure — contract awards have nearly doubled since the first year of operation. Customer workload is much more diverse than prior to privatization with a significantly larger number of non-Navy customers and less overall funding from the Naval Air Systems Command.

By virtue of the privatization, customers of the NAWC enjoyed uninterrupted execution of their programs and experienced significant cost savings over the original "close-and-move" proposal. The Navy's original internal cost-saving study indicated an estimated $230 million in one-time cost avoidance coupled with future yearly cost savings.

Property conveyance has involved a unique partnership between the city of Indianapolis and the Naval Facilities Engineering Command. Although the privatization-in-place was the official BRAC Commission recommendation, it still was a Navy base closure action and all federal property transfer issues still had to be addressed.

Operations at the site experienced no shutdown during the transfer from the Navy to Raytheon. As a result, this "hot turnover" required significant cooperation and coordination between parties for environmental cleanup so as to minimize disruption to the company. The Navy was exemplary in its use of alternative work schedules to achieve its needed cleanup actions. Many cleanup operations at the main facility were performed after standard working hours so as not to interrupt normal facility operations. As a result of this partnership, the final parcel of property transferred to the city of Indianapolis in October 2004, completing this unique privatization-in-place.

The transfer of the property and the establishment of the private operation have continued to be successful for one primary reason: a unique three-way working arrangement among the DOD, city of Indianapolis and Raytheon. This desire to work together to achieve the best results for all three parties has been the overriding reason for success.

Chapter 12

FORT HANCOCK REBORN: LESSONS FROM THE NATIONAL PARK SERVICE'S HISTORIC LEASING PROGRAM

By Jacqueline Rogers

Fort Hancock was closed as an Army installation in 1974 when it became part of the Gateway National Recreation Area at Sandy Hook in New Jersey. The historic core of the old fort, including the Officers Row fronting on the parade ground, is about to become an exciting mixed-use development, which will leverage more than $60 million of private capital for redevelopment.

The project will offer high-tech office space, overnight accommodations with conference spaces and restaurants, and facilities for a variety of research and educational entities through a public-private partnership. The mechanism for adaptive reuse of the elegant, historically significant, but severely deteriorated military structures is the historic leasing program of the Department of the Interior's National Park Service (NPS).

Concept and Background

The concept for Fort Hancock specifically excludes residential housing as an adaptive reuse. Nonetheless, the NPS approach to partnering with the private sector to leverage reinvestment and make money for both partners offers valuable insights for installations, which must address the preservation of historic assets. It further illustrates how the Department of Defense might use its "enhanced leasing" powers authorized in the FY 2002 National Defense Authorization Act to increase resources available for installation management.

A notable difference between the NPS program and the way the military departments approach public-private partnerships is the degree to which NPS relies on its own internal capacity rather than outside consultants to structure historic leases. Both the solicitation process and draft lease for Fort Hancock include provisions worthy of consideration for inclusion in future housing privatization transactions.

The Army's current Community Development Management Planning (CDMP) process affords an excellent vehicle to combine housing privatization and enhanced leasing opportunities to optimize the value of installation assets. A key question to address is whether adaptive reuse of existing historic structures makes more economic sense than their preservation for residential use. It could be more cost effective, for example, to replace historic officers' quarters with new quarters and then adaptively reuse the historic quarters for a need that brings a return to the installation.

Since 1933, military installations no longer needed to support modern warfare have been made available to the NPS to enhance the nation's park system. The Park Service's charter, dating back to 1916, specifies that it is to "conserve the scenery and the natural and historic objects and wildlife therein and to provide for the enjoyment of the same in such manner and by such means as will leave them unimpaired for the enjoyment of future generations."[1]

Fort Hancock and the Sandy Hook Proving Ground were located on the northern New Jersey coast opposite New York City. The proving ground was in use between 1874 and 1919. Fort Hancock, designed to protect New York Harbor, operated between 1895 and 1974.

The original Fort Hancock was designed to garrison 400 men and consisted of 32 brick structures built around a parade ground. Barracks for single enlisted men and officers quarters were added later along with a commissary, post exchange, bakery, library, theater, chapel, school, YMCA and gymnasium.

Jacqueline Rogers is a senior fellow and professor of public affairs at the University of Maryland at College Park. Dr. Rogers also serves with the Office of Executive Programs at the University of Maryland School of Public Affairs. This chapter is adapted from "Fort Hancock Reborn: Lessons from the National Park Service's Historic Leasing Program." She can be reached at rogersj@umd.edu.

Other structures were added later for a total of 200, 120 of which are situated in the Fort Hancock and Sandy Hook Proving Ground Historic District. At its height during World War II, Fort Hancock was home to about 18,000 soldiers and civilians.

As was the case with many military facilities, the need for this installation was diminished as a result of technological changes. In 1974, the Army turned Fort Hancock over to the Park Service to become part of the Gateway National Recreation Area at Sandy Hook. This area encompasses 1,665 acres fronting the water, including important natural conservation areas, the fort, a lifesaving station, the Sandy Hook Lighthouse and Keepers Quarters, gun batteries, and a proving ground. The core area of Fort Hancock is about 140 acres. In 1982, the park was designated a National Historic Landmark by the Department of the Interior. A Coast Guard station, which houses approximately 300 military personnel and dependents, abuts the park on the northern tip of Sandy Hook.

New York City is accessible by ferry year-round from nearby Highland at the entrance to the park, a 35-minute ride, and seasonally on weekends by a high-speed ferry, which makes the 20-minute run directly from Sandy Hook. By car, the trip to Manhattan takes 70 minutes during non-peak travel hours and about 90 minutes during rush hour. More than 2 million people a year now visit the park to engage in a variety of outdoor and educational activities, with most of this activity occurring on weekends during the warmer months.

Monmouth County, in which the park is located, is a thriving community of 665 square miles, which was designated by Money magazine as the third best place to live in 1997. It has experienced significantly rising personal income and job growth. In 1998 alone, 3,100 new residential building permits were issued.

Facilities Challenges

Over the course of the National Park Service's stewardship, many improvements have been made, such as upgrades to the water and wastewater facilities, provision of parking areas, road construction, removal of underground storage tanks, a restoration project for the lighthouse, movement of some utilities below ground, rehabilitation of two barracks for dormitory rooms, renovation of the post theater and a renovation of Barracks 25 for use as a visitors center.

The Park also has made some buildings available to nonprofit and educational institutions, including the National Oceanic & Atmospheric Administration, the New Jersey Marine Sciences Consortium, Brookdale Community College and the Marine Academy of Science & Technology. The New Jersey Audubon Society is the park's newest tenant and it is in the process of using the hospital steward's quarters as the Sandy Hook Bird Observatory.

However, annual appropriations for park maintenance have not sufficed to conserve all of the historic structures associated with the fort. By 1998, many structures had fallen into such significant disrepair that they were at risk of being lost altogether. The district is listed on the Secretary of the Interior's "60 Most Threatened National Historic Landmarks" list.

According to the environmental assessment, "The greatest majority of the historic buildings and cultural features that make up the district are in fair to poor condition and urgently require preservation treatment." It goes on to suggest that if no action is taken, "Within five years certain historic buildings, including the Officers' Club would likely deteriorate to a condition beyond repair."

Looking for a Restoration Partner

Although no formal action was taken to find a partner until 1998, the "Fort Hancock Gateway Village Concept" was adopted in the park's 1979 general management plan. It was reaffirmed in the 1990 general plan amendment. The 1979 plan called for a "rehabilitation zone," which was "to retain the integrity of the historic scene and to provide for adaptive reuse though rehabilitation of historic structures."

The 1990 plan amendment specifically proposed that rehabilitation be achieved through a public-private partnership to create a "Gateway Village," which would encompass a concentration of intensive uses. It also specified possible uses within the rehabilitation zone: "educational facilities (residential and non-residential), hostels, research centers, conference/education centers, professional offices, overnight accommodations and restaurants, among others."

In order to help preserve the fort, NPS determined that an appropriate complement to its own restoration efforts would be its historic leasing program for the most historically significant buildings not otherwise in use by park staff or other governmental and nonprofit agencies.[2] Historic leasing could bring private capital and private uses to these properties, while achieving restoration and generating revenue for use elsewhere in the park.

Work began in earnest on the search for private partners in 1998. Informational brochures were sent to more than 9,000 prospective respondents and the park garnered extensive media coverage. From this, a mailing list of 300 potential respondents was developed.

Forty of the 97 buildings in the core area of the fort are in use, but not necessarily fully utilized by the Park Service. Twenty more are being used by governmental and nonprofit agencies. The remainder comprises the opportunity for adaptive reuse.

A request for proposals (RFP) was drafted and issued in August 1999 for the lease of at least 32 structures, and up to 16 more, excluding the land on which the structures sit. The exclusion of the land was designed to ensure open public access to all park lands. This is not a live issue for military housing, although public access could be a future issue in the event soldiers and their families are not the primary residents of privately owned housing on post. Three goals were articulated in the RFP for the adaptive reuse of the fort:

- Program Goal: Create a year-round community of educational, research and recreational organizations sharing common goals and an appreciation of Fort Hancock's history and unique shoreline setting and return Fort Hancock's historic building structures to the greatest extent practical, to their original use as office and meeting space, transient lodging, and recreation and entertainment facilities.
- Historic Preservation Goal: Ensure the preservation of historic structures that contribute to the landmark through the selection of compatible adaptive reuses. Establish and carry out appropriate preservation treatments for historic buildings and settings.
- Building Maintenance and Occupancy Goal: Provide for the timely occupancy of Fort Hancock buildings and grounds, ensure adequate maintenance and building preservation, and generate long-term revenues to support Fort Hancock.

The RFP treated the lease as a real estate transaction, not as a contractual procurement subject to the Federal Acquisition Regulations (FAR). This resulted in a relatively simple selection process, which allowed the Park Service to negotiate flexibly with proposers regarding the lease terms. Proposers' submissions consisted of two items: a transmittal letter and an application for a historic lease in a format specified in Appendix B of the RFP.

While the Park Service stated its intent to select leaseholders based on their initial submissions, it stated that, "If this cannot be done, the National Park Service will select those proposals that appear most advantageous, and from that group will request additional information or presentations so that the best proposal can be selected."

Despite its exclusion of residential use, the RFP had notable provisions relevant to the service branches' military family housing partnering efforts. The RFP:

- Solicited proposals from all sectors — for-profit, nonprofit and other governmental entities — so as to get the widest possible range of redevelopment concepts;
- Stated that all structures offered for lease qualified as certified historic structures for purposes of the Federal Historic Rehabilitation Tax Credit;
- Avoided the all-or-nothing approach by providing that all or a subset of the 32 buildings comprising the offering could be allocated to one or more proposers;
- Allowed flexibility in the length of the lease, with an anticipated 15-year minimum;
- Required payment of fair market rent, calibrated to building condition, required level of private investment and length of lease term;
- Indicated that tenants would be charged a service district fee[3] to cover the cost of NPS services provided, estimated at $1.65 a square foot in 1999 (an elegant mechanism for recovering the Park Service's service provision costs);
- Left the door open to lease ancillary land and structures, if needed, to make the reuse concept viable and designed to be compatible with the existing structures;
- Provided that the rehabilitation work had to conform with New Jersey building, fire, electrical and plumbing codes, as well as applicable federal accessibility standards for the disabled and that permits were the responsibility of the lessee;
- Indicated that the lessee would be liable for payment of all assessments and taxes levied by any level of government;
- Excluded subordination of fee ownership, but allowed for a "leasehold mortgage;" and
- Required that the lease application and related materials reflected the entire proposal being made.

Selection factors used in evaluating the lease applications conform to the sections of the lease application. For each factor, a specific set of questions requiring response were included, but proposers were permitted to submit additional relevant information. The factors were:

- Project team summary and qualification; preliminary reuse concept and Park Service goals;

- Commitment to environmental stewardship and sustainability;
- Demonstration of experience;
- Financial capability and assurances; adequacy of insurance;
- Business terms and conditions, in which the proposer accepted the Park Service's minimum terms; and
- A rental payment structure which "maximizes investment and payments to the NPS and enhances park operations."

It is important to note that the NPS placed a premium not only on allowing its private partner an acceptable return, but also getting the best possible return for the park.

Picking the Winners

The solicitation closed in November 1999. Twenty-two proposals were received, 10 of which were deemed responsive. It took the six-member evaluation team, which was composed of senior Park Service managers, four months to recommend and secure approval for prospective partners.

In April 2000, Marie Rust, the Northeast Regional Director of the Park Service, announced that the service would open negotiations with two prospective partners. Building 18 on Officers Row would be made available to the American Littoral Society, an organization that studies the drift of sand and had worked with NPS extensively at Sandy Hook, for its educational and environmental cleanup programming. This decision was respectful of a longstanding and mutually beneficial association with the society and it reflected the Park Service's desire for the society's long-term presence on park grounds.

Thirty-six additional structures initially were allocated to a single master developer, Sandy Hook Partners LLC (the Wassel Realty Group) for phased, mixed-use, campus-like development with education and environmental preservation as thematic binders. The project focused heavily on Officers Row and was to be divided into three phases proposed for implementation over a five-year period.

- Approximately one-third of the property was to be dedicated to environmental research and educational activities in collaboration with Brookdale Community College and other New Jersey institutions of higher learning and nonprofit organizations. This included the conversion of the old warehouse to a diving pool and hyperbaric decompression unit for divers as a research endeavor.
- Another third was to become high-tech office space with "smart buildings" wired with fiber-optic cables. Office spaces would have water views and a serene setting. Projected rental rates were $22 a square foot as compared to the $64 rate commanded for comparable space in Manhattan. The telecommunications upgrades would be made available to existing park facilities and tenants through an intranet.
- The remainder of the property was made up of conferencing and meeting facilities, including overnight accommodations and a 400-seat theater. Three areas were designated for food service: the Officers Club at the high end, conversion of the Mule Barn to mid-range casual dining and Barracks Building 24 to a cafeteria. The YMCA built in 1901 was to be returned to its original use with a gym and a bowling alley.

Central to the Sandy Hook Partners' proposal was the creation of a "collaborative environment" that places a high value on learning, whether the spaces are used for education, research or offices. The developers intend to build on the strengths of existing park tenants. New tenants will be selected based on their understanding of and commitment to this concept.

The proposal did not call for any new construction to support the adaptive reuse, though as noted below, additional parking was needed to support reuse activities. Subsequent to restoration, the developers would sublease spaces to other tenants.

Defining the Details – The Environmental Assessment and Advisory Services

The mechanism for refining the adaptive reuse concept and exposing it to public review was the development of the environmental assessment, which was made available for public review in February 2002. The assessment was prepared by the NPS in association with Sandy Hook Partners LLC over a 20-month period. Sandy Hook Partners' architect provided the details of the historic restoration, but all other elements of the assessment were prepared in-house by park staff, at an estimated cost of about $35,000.

When the Park Service was satisfied that the concept was viable at the conclusion of the process, it provided Sandy Hook Partners with a letter of intent on Nov. 29, 2001. This enabled the partners to pursue its financing definitively.

The environmental assessment was opened for public comment in February 2002. A public hearing was conducted in April and a second hearing period was held June 1, with comments open to June 15, 2002. This document addressed seven key issues:

- Rehabilitation for new uses of approximately 97 historic buildings (37 associated with the historic leasing program and 60 under Park Service management or through cooperative agreement);
- Preservation of the historic fabric and character-defining features of all historic buildings in the Fort Hancock District;
- Rehabilitation of the Fort Hancock cultural landscape and preservation of its character-defining features;
- Provision for a safe and universally accessible park environment for visitors and partners;
- Preservation of archaeological resources;
- Protection of wildlife habitats and special status species, including natural vegetation, Piping Plover, Osprey and Wild Wormwood; and
- Provision for an efficient operational environment necessary for current and new uses.

During the process of preparing the environmental assessment, the Fort Hancock rehabilitation guidelines, initially prepared in March 1999, were amended and approved by the New Jersey State Historic Preservation Officer in January 2001.

The assessment compares only two alternatives: "no action" and the "rehabilitation alternative," but it does describe two different implementation strategies for the rehabilitation alternative.

A significant change associated with the historic leasing proposal includes relocation of 650 parking spaces to the Fort Hancock environs, but these spaces would be available to the public on weekends. The total number of spaces to be provided, 1,378, will still be below the Building Owners & Managers Association standards, which would call for 2,105 spaces. Approximately 800 additional vehicles were expected to enter the park on weekdays. The daily population of the structures adaptively reused is estimated to be approximately 1,500, not all of whom will arrive by car.

In general, press coverage indicated widespread support for the adaptive reuse proposal. Some groups have expressed moderate concern about the compatibility of commercial uses with park and recreational use; others feared that the project would fail and different, more intensive uses may be proposed. Some would prefer to see a return to the park's natural state with no buildings at all; and finally there is concern about additional traffic congestion.

The Park Service did not anticipate, however, the depth of conviction associated with the opponents of redevelopment. In retrospect, the park's acting superintendent believed it would have been better to include potential opponents in the dialogue while the environmental assessment was being prepared.

The project was delayed by almost two years after the Monmouth Conservation Foundation protested the selection process to the Department of the Interior. There was first an internal review and it was followed in 2003 by an investigation by the Interior Department's Office of the Inspector General for the Eastern Region. The latter investigation was not completed until February 2004. In a letter to the individual who brought the protest, Special Agent Paul Okerberg concluded that the investigation "found no criminal, civil or administrative violations by NPS or any other party associated with the Fort Hancock Lease."

While the investigations were in process, the Park Service diligently pursued completing the necessary actions to enable execution of the lease. A significant milestone was reached when the finding of no significant impact (FONSI) was signed in July 2003.

Under the terms of the RFP, Sandy Hook Partners LLC had six months to demonstrate to the Park Service that its financing was in place. However, the firm could not proceed to secure its financing with the outcome of the investigations uncertain. Therefore, in November 2003, the Park Service extended the time by which a definitive financing package could be assembled to June 30, 2004. Execution of the lease and notice to proceed with construction will follow Park Service approval of the financing package.

Advisory Services

NPS utilized two paid consultants for this work. The first was a retired NPS solicitor (Lars Hanslin) with expertise concerning the historic leasing regulations, who was to be paid up to $25,000. The second was a Wharton School business consultant (Bill Alexander) with financial expertise, whose costs are not anticipated to exceed $30,000. The scope for financial advisory services included the following tasks:

- Review of the RFP to ensure appropriate information was requested from proposers;
- Review of submitted proposals and advice to the selection committee on relative strengths and weaknesses of the proposals;
- Attendance at interviews of finalists;

- Provision of analysis of the financial feasibility and economic assumptions of the finalists;
- Attendance at negotiations with the preferred developer;
- Testing of the economic model presented by the preferred developer for reasonableness of development costs, rental assumption and ongoing costs;
- Ensuring the present value cash flow potential return for NPS is appropriate for a partner contributing assets to a real estate project as contemplated in the Fort Hancock development; and
- Performing background checks on the members of the preferred developer's team.

Key Lease Provisions

As of April 2004, the shape of the public-private partnership has not been fully defined. However, a redacted version of the fifth draft of the historic lease was publicly released at the end of April 2002. It provides significant insight into the nature of the proposed transaction and it has provisions that could benefit the service branches.

The reinvestment package is expected to exceed $65 million, making it the largest NPS historic leasing project to date. In addition to the historic restorations, it will include environmentally friendly infrastructure improvements like wastewater recycling and alternative electrical generation mechanisms.

The rehabilitation will take advantage of historic tax credits and will be tightly supervised by NPS personnel and the New Jersey Historic Preservation Office. NPS has review and approval rights for architectural and construction documents and it will receive and own use of the as-built drawings after construction completion. A programmatic agreement among NPS, the Advisory Council on Historic Preservation, Sandy Hook Partners and the New Jersey Historic Preservation Office will guide the restoration.

The financing package must be acceptable to NPS and the standard for decision making is a "commercially reasonable commitment for financing necessary for the construction of the Lessee Improvements or Alterations for which the Lessee is seeking approval." Unless disapproved within 30 days, the financing is deemed approved.

Interestingly, leasehold mortgages only can be made to "secure repayment of a loan or loans made to the Lessee for the purpose of making Lessee Improvements, Alterations or Preservation of the Premises." Similarly, refinancings are permitted but only for the outstanding principal balance of financings that were previously approved. This means that if the property appreciates substantially, Sandy Hook Partners cannot refinance the property and take capital out for use elsewhere.

The NPS rental income will increase every five years to a stable percentage of gross income by year 16, with payment triggered at initial occupancy of each structure. According to the Atlanticville News, rent paid to the NPS is anticipated to reach $1 million by year eight.[4]

The park will be paid its $1.65 per square foot service district fee. The fee goes into effect at the time the rehabilitated property is occupied on a property-by-property basis. The fee will be held constant for the first seven years of the lease. After seven years, Consumer Price Index (CPI) adjustments will be applied retroactively and thereafter, the CPI will be applied annually.

The issue of local taxation by Middletown Township remains open.

Development Phasing

To ensure that the overall project is responsive to the market, the mix of uses included in each phase of the redevelopment will be a function of the identification of acceptable tenants. However, in no event will anything be undertaken which diverges from the core redevelopment concept and no more than a 10 percent reduction in square footage is permitted for any phase. NPS has the right to approve prospective tenants.

Educational uses are capped at 50 percent of the total square footage and no other approved use can exceed 40 percent. In addition, the NPS can at any time during the lease term add buildings to the lease without additional competition, as long as the addition is acceptable to Sandy Hook Partners.

Leasing Terms

The lease term will be 60 years with no "preferential" renewal allowed. The property is to be returned to the park at that time in the same condition it was when certificates of occupancy were issued — "Damages beyond the control of the Lessee and due to ordinary wear and tear excepted." This ordinary wear-and-tear provision is not likely to be as troublesome in this context as it has been for the military in its build-to-lease programs, because turnover will not be as high and it's clear that Sandy Hook Partners bears all the risk for damage to the property. Presumably that risk is calculated into its rent levels.

During the final five years of the lease, NPS has a right of entry to the property during normal business hours for the purposes of "exhibiting the same to prospective ground lessees."

Exit and Default Provisions

The Park Service can terminate the lease for cause. It also "acknowledges the sovereign right of the Lessor to cancel this Lease at any time, subject to such right as the Lessee may have under the law to seek compensation for such cancellation." In the event of a bankruptcy, NPS can also terminate the lease.

Lenders can foreclose on the lease in the event of default by Sandy Hook Partners, but in so doing, they must assume all responsibilities of the Lessee.

Approvals, Performance Monitoring and Dispute Resolution

The draft lease contains myriad approval points for the NPS, including the buildings to be included in each phase, excavations, details of the restorations, the preservation maintenance plan, future alterations, prospective tenants, subleases, the financing package, transfer of the lease, refinancings, hours of operation for the tenants, and future modifications of the buildings. In most places where an NPS approval is stipulated, the lease also specifies that the approval is "not to be unreasonably withheld or delayed."

The Park Service has not yet focused carefully on how it will monitor the agreement after the lease is signed. Once the project begins to generate lease revenues, the park expects to have a full-time contracting officer's technical representative on staff to provide oversight, but given current budget constraints this position will not be put in place until funds are available from rental revenues.

The lease does require disclosure of: all financial statements and other reports generated about the performance of the property for any source, e.g. for lenders; copies of all contracts in excess of $5,000; and all subleases.

The park fire departments will annually inspect all the buildings in the leasehold and NPS has intervention rights if Sandy Hook Partners fails to promptly cure any identified health or safety risks.

The redacted lease does not describe any reserve accounts for replacements, but there is an ongoing requirement for preservation maintenance in accordance with an NPS-approved plan. NPS is responsible for maintenance of roads, water and sewer mains up to the leasehold, and grounds near the leased properties. However, Sandy Hook has the option to increase the quality of grounds maintenance at its own expense, if proposed improvements are approved by NPS, and the option to transfer water and sewer utility provision to another provider.

With so many approvals required, there is obvious potential for dispute, even among trusting collaborators. The contract does not, as is often the case in military privatizations, vest dispute resolution with the government's designated representative. Instead it calls for a progression from meetings between the parties, to meetings based on written summations among senior management from each side to alternative dispute resolution. Specifically, it provides, "If the dispute is not resolved by the senior management of each party, the Parties will attempt in good faith to resolve the dispute by mediation conducted in accordance with the Commercial Mediation Rules of the American Arbitration Association."

Conclusion

The Park Service's adaptive reuse of Fort Hancock's historic structures is a model for opportunities at installations that have historically significant quarters and other structures.

Many historic structures are not sized or equipped appropriately to meet the needs of their residents. Historic residences on military installations are costly to maintain. As such, they can place a disproportionate drain on maintenance budgets or they may diminish funds available for improvements to the remainder of the housing stock during the process of conversion to private ownership.

The military departments may want, therefore, in some instances to replace them with new quarters and then adaptively reuse the historically significant residences, thus converting a liability to an asset. When solicitations for private partners are developed, this option should be placed on the table, where appropriate, by integrating the privatization authority with enhanced leasing.

The Park Service's failure to work directly with concerned environmental groups during the development of the environmental assessment, so that their concerns could be fully understood and addressed, led to significant — and potentially avoidable — delays in project implementation. However, the project is now back on track and construction should begin by late 2004.

Finally, both the solicitation and draft lease for Fort Hancock include provisions worthy of consideration for inclusion in housing privatization transactions.

FOOTNOTES

[1] The primary sources for the fact pattern presented in this case study are: the Request for Proposals for the Leasing of Fort Hancock Historic Properties, Gateway National Recreation Area Sandy Hook Unit, Fort Hancock, New Jersey August 1999, United States Department of the Interior National Park Service, 1999; the Environmental Assessment for the Adaptive Use of Fort Hancock and the Sandy Hook Proving Ground Historic District, prepared by The National Park Service in Association with Sandy Hook Partners LLC, Revised February 2002 (available online at http://www.njparksandforests.org); and the redacted Historic Lease (Draft 5-11/29/01). The RFP can be accessed online from http://www.puaf.umd.edu/OEP/pdf/Fort_Hancock_RPF_2002.pdf. Interviews also were conducted with David Luchsinger, the first project manager, Richard Wells, deputy park superintendent, and Jim Wassel, the general partner of Sandy Hook Partners LLC.

[2] Under section 111 of the National Historic Preservation Act (16 USC. 470 et seq. at http://www4.law.cornell.edu/uscode/16/470.html), NPS may lease historic properties and use the proceeds to maintain and preserve those properties. NHPA originally passed in 1966 with amendments in 1980, 1992 and 2000. Implementing guidance was provided in a Letter From the Director to All Regional Directors, 19 April 1984. NPS leasing regulations can be found at 36 CFR Part 18.

[3] The Service District Fee is explained in Appendix D of the RFP. "The Service District Fee is a charge billed Fort Hancock Park Partners to recover the National Park Service's costs associated with making its facilities and services avail to tenants. The fee will be based on those costs specifically associated with tenants, and not for providing the same to those activities exclusively related to visitor services and special projects. These categories include General Administration, Safety and Law Enforcement, and Fire and Emergency Medical Services. A per square footage cost will be used, based on a fiscal impact analysis of the incremental public service costs and revenue generated by the development project."

[4] Atlanticville News, "Private group gains foothold on Sandy Hook. Plans call for 60 year lease on rehabilitated Fort Hancock buildings," by Gloria Stravelli. This article also presents a nice summation of the perspectives of various interest groups with regard to the project.

PART III: REAL ESTATE & FACILITIES – RECENT DEVELOPMENT INITIATIVES

Chapter 13
THE BROOKS CITY-BASE PROJECT: A NEW TYPE OF PUBLIC-PUBLIC & PUBLIC-PRIVATE PARTNERSHIP

By Mark W. Frye

This chapter summarizes a creative partnership between two public entities (the city of San Antonio and the U.S. Air Force) acting as public entrepreneurs to create real estate value at Brooks Air Force Base in cooperation with the private sector development community.

Brooks AFB is one of four military installations located in San Antonio. In 1995, the city learned that Brooks's high operating costs and relatively portable missions made it vulnerable to closure when the Secretary of Defense placed it on the Base Realignment and Closure (BRAC) list. Although the BRAC Commission removed Brooks from the list when nearby Kelly AFB was added for partial closure and realignment, the leaders of the community and the installation knew that they had to proactively address Brooks' high operating costs while strengthening mission ties to outside partners.

Addressing the Issue

In 1997, San Antonio community leaders began meeting with Brooks officials to discuss ways the community could help the base reduce its operating support costs and build public-public and public-private partnerships. In late 1997, the Air Force announced it was embarking on an initiative it termed "City-Base." Simultaneously, San Antonio Mayor Howard W. Peak appointed the Brooks Opportunities Task Force (BOTF) and chartered this group to meet with base officials and the Air Force senior leadership and develop recommendations for the city to pursue that would complement Air Force planning activities and recommendations. This partnership became known as the Brooks City-Base Project.

In January 1998, a memorandum of understanding (MOU) was signed by the Brooks installation commander and Mayor Peak. The MOU established the basis for the evolving partnership and addressed roles, responsibilities, goals and objectives. The vision of both parties was to create a "model of base efficiency" within the Department of Defense (DOD), while providing a continued source of employment, economic well-being, and civic pride within the community. Numerous meetings between the city and the Air Force followed the signing of this historic MOU. From these initial steps, a common vision for Brooks AFB in the 21st century began to emerge.

In August 1998, the Air Force initiated a study to: determine the costs of operating Brooks; identify opportunities to pursue via public-public and public-private partnerships; quantify savings the Air Force could realize from City-Base implementation; and identify statutory impediments to implementing proposed options. Once completed, the study recommended additional authorities required for the Air Force to proceed. The study was completed in January 1999 and forwarded to Congress in March 1999.

Following the release of the study, the BOTF issued its final report to City Council in March 1999. The task force recommended that the city council appoint two follow-on committees: the Brooks Property Advisory Committee and the Brooks Partnerships Advisory Committee. The council adopted these recommendations. Also in March, members of the public and private sectors with expertise in economic development, community planning, commercial business practices and finance participated in a two-day meeting to visualize the future of Brooks under the City-Base concept. This meeting provided a foundation for future actions, clarified potential opportunities, and established a framework for cooperative and collaborative actions between the Air Force and the city of San Antonio.

Mark W. Frye is a managing director for the BearingPoint Inc. office in San Antonio, and chairman of the NAID Private Sector Leadership Council. He can be reached at mwfrye@bearingpoint.com.

In October 1999 the Property Development Advisory Committee issued its report to the mayor and city council. Acting on this report the San Antonio City Council directed city staff to:

- Initiate discussions with the Air Force on the possible transfer of Brooks to the city and leaseback of property needed by the Air Force and to reach a non-binding agreement by December 2000.
- Establish a Brooks Advisory Board.
- Establish an internal economic development team to manage the Brooks City-Base Project.

These actions were implemented in 1999 and 2000. In December 1999, the Air Force and the city agreed to joint measures of success and the Brooks City-Base Concept became the Brooks City-Base Project.

On Feb. 29, 2000, the Secretary of the Air Force signed a "Concept Approval Letter" that addressed overall Air Force planning milestones established for implementing the authorities provided for under the FY 2000 Defense Appropriations Act (P.L. 106-79).

Legislation

Congressman Ciro D. Rodriguez and Sen. Kay Bailey Hutchison introduced legislation that would allow the Brooks City-Base Project to take place. The fiscal 2000 defense spending act, passed by Congress in October 1999, included a provision authorizing the Secretary of the Air Force to conduct a demonstration project at Brooks.

The stated purpose of the project was to improve mission effectiveness and reduce the cost of providing quality installation support at Brooks. The legislation provided for the evaluation and demonstration of methods for more efficient operation of military installations through improved capital asset management and greater reliance on the public and private sectors for less costly base support services. The authorities provide the secretary of the Air Force with various means to accomplish these goals, including the ability to transfer interest in Brooks AFB property to others through fee simple deed (conveyance) or lease, and to leaseback property necessary to support mission activities.

In July 2000, as part of the FY 2001 Military Construction Appropriations Act (P.L.106-246), Congress amended the Brooks legislation. In its current form, the Brooks legislation provides the authority for the secretary of the Air Force to:

- Submit a master plan for the development of the base to appropriate congressional committees no later than 30 days prior to implementing any of the other authorities in the statute.
- Convert Brooks services from military personnel or civilian employees to services provided by contract or as consideration for the lease, sale or other conveyance of the property.
- Award "best value" contracts if such contracts advance the purposes of a joint activity conducted under the project and are in the best interests of the Air Force.
- Contract for public services normally funded by local and state taxes (excluding fire, police and public schools).
- Conduct joint activities with the community, state, and any private sector parties on or for the benefit of the base.
- Lease real or personal property located on the base that is not required at other Air Force installations to any lessee under terms and conditions determined appropriate by the secretary, subject to certain other provisions.
- Dispose of real or personal property located on the base to the community or to another public or private entity under terms and conditions determined appropriate by the secretary, subject to certain other provisions.
- Lease or dispose of real property at the base to an entity that agrees to enter into a leaseback to the Air Force for property still needed for an Air Force or other federal agency mission, subject to certain other provisions.
- Determine the nature, value and adequacy of consideration required or offered for lease or conveyance of property at the base, subject to certain other provisions. Consideration may not be for less than the fair market value of the base property.
- Establish the "Base Efficiency Project Fund," into which all cash rents, proceeds, payments, reimbursements and other amounts from the sale or leasing of base property or from other actions taken under the Base Efficiency Project are to be deposited. The legislation establishes the guidelines to make project funds available for base activities.

The state of Texas also recognized the opportunities that the Brooks City-Base Project provided. Senate Bill 911 amended Chapter 378 of the Texas Local Government Code in May 2001 to allow for the creation of economic development authorities at base efficiency project locations (i.e., Brooks). In addition to providing for the creation of the Brooks Development Authority (BDA), the state statute requires the BDA to transfer ownership of any Brooks utilities conveyed by the Air Force to the city of San Antonio's municipally owned utility companies. The 11-member BDA board is appointed by the San Antonio City Council. Beginning in July 2002, the BDA will act as the Brooks City-Base landlord and will oversee the maintenance and development of the property.

Some Negotiation Required

In August 2000, the Air Force and the city of San Antonio established the City-Base Agreement Team (CBAT). The CBAT, consisting of city staff, Air Force staff, Texas Experiment Engineering Station (TEES; representing the state of Texas and Texas A&M University) supporting attorneys and contract facilitators, was chartered to negotiate the non-binding agreement (NBA) that would form the basis for the subsequent property transaction. The CBAT met formally 16 times and held numerous informal meetings to develop the NBA, which outlined the "guts of the deal." After formal presentation to the city council on Nov. 30, 2000, the council authorized the city manager or his designee to enter into the NBA with the Air Force. The "Non-Binding Agreement Between the United States Air Force and the City of San Antonio for a Proposed City-Base Project at Brooks Air Force Base, Texas" was signed by the Air Force on Dec. 14, 2000, and by the city on Dec. 19, 2000.

In January 2001, the CBAT formally met another 47 times to resolve details not addressed in the NBA, negotiate the actual terms of the deal, and discuss issues related to the preparation and implementation of a cooperative agreement between the Air Force and the city, the preparation of the Air Force Master Plan for the Development of Brooks City-Base, the purchase and sale agreement, the Air Force leaseback lease, a joint development plan, various other legal documents, and the city's Comprehensive Economic Development Plan for southeast San Antonio.

Additionally, CBAT meetings were used to discuss a wide variety of environmental and facilities issues, utilities transfer issues, force protection and other security issues, and milestones and timelines for project implementation. In December 2001, CBAT meetings were replaced by meetings of the Brooks Development Office (BDO), a "virtual" organization staffed by the Air Force, city of San Antonio, TEES and support contractors.

The "Deal"

In July 2002 Brooks AFB became the property of the BDA. The former base property has been renamed "Brooks City-Base: A Technology and Business Center." The BDA now is the landlord at the park and through the BDO provides for overall planning, management and marketing. The city of San Antonio began providing fire protection services in October 2001. The city also is providing law enforcement services. The Air Force is leasing back only that property at Brooks that is essential to accomplishing its missions. This will result in a significant reduction in Air Force operating costs and a new synergy with the Air Force missions through the creation of corporate and academic partnerships. Air Force personnel have the opportunity to concentrate on their primary missions of the environment, research, and aerospace medicine education and training rather than the mission of operating and maintaining base infrastructure. As future development occurs at Brooks City-Base, net revenues will be split between the Air Force and the BDA. The BDA share will be reinvested in further development and improvements to Brooks.

As required by the enabling legislation, the property was transferred at fair market value. The fair market value was established by a joint appraisal, using both income and comparable sales approaches. The U.S. General Services Administration certified the appraised value of the property at $64.2 million. By agreement between the parties, the fair market value was satisfied the day the property was transferred, through abated rent for the Air Force (i.e., the Air Force pays only its share of operating expenses and capital reserves), shared revenue in property development and municipal services that support the Air Force missions. The term of the Air Force lease is for 20 years, with four optional 20-year extensions.

The joint development plan serves as a blueprint for development of the Brooks City-Base. The plan looks at the future development of Brooks in the context of the development of the southeast quadrant of San Antonio and protects Air Force missions from incompatible development and land uses. Deed restrictions are associated with landfills and groundwater contamination, management of historic properties, and Air Force responsibilities for any environmental contamination found after conveyance. Covenants, conditions and restrictions also protect Air Force facilities from incompatible activities by other tenants.

Utility transfers will be accomplished through bills of sale. Ownership of the electrical distribution and natural gas systems will be transferred from the Air Force to the BDA. The BDA then will transfer the utility to City Public Service. The Air Force has agreed to provide funds (up to $3.4 million) for the installation of meters and health and safety upgrades over the next 18 months. City Public Service will contribute an additional $3.6 million for upgrades. Following these upgrades, the BDA and the city will fund up to $3.6 million for additional upgrades. Water and sanitary sewer infrastructure will be handled in a similar manner with transfer to the San Antonio Water System. The Air Force, BDA and others will pay for repairs and upgrades.

The BDA, through its property manager, Grubb and Ellis, has assumed responsibility for housing management, maintenance and repair, and for any upgrades of the utility infrastructure servicing the military family housing units. Military members will rent these units from BDA at a cost equal to their basic allowance for housing.

Physical security at Brooks City-Base has been upgraded. These upgrades include the installation of fencing and increased lighting, use of facility badges and swipe-card locks, and closure of some roads leading into the family housing area. The San Antonio Police Department is providing routine patrols throughout the park, complementing the remaining Air Force security force. Air Force leaseback property is subject to concurrent jurisdiction. A memorandum of agreement between the San Antonio Police Department and the Air Force outlines their respective responsibilities under this arrangement.

The objectives of cost reduction and mission enhancement are being accomplished through the Brooks City-Base. The foundation for the success of this project and for the future of the project is a quality relationship based on mutual respect and cooperation among all parties involved. Each must understand the needs and limitations of the other. None of the partners can move or change risks or burdens without considering the others.

Chapter 14
FORT LEONARD WOOD TECHNOLOGY PARK: AN ENHANCED-USE LEASING SUCCESS STORY

By Ron Selfors

This chapter describes the pioneering development of a commercial technology park on an active military installation. This is a unique initiative in many ways that may have great potential at other active military installations across the country. Described are the expected benefits, the procedures followed, the challenges met and the results to date. A comparison is made to other enhanced use leasing projects.

In May 2001, a ceremony was held to mark the historic signing of a partnership agreement between the state of Missouri and the University of Missouri System. The agreement put in place the policies and procedures that enabled state participation in the University of Missouri Technology Park at Fort Leonard Wood. In May 2002, another ceremony was held when the first building in the park was opened.

This rapidly developing project has immense potential for the university, the region and the Army. The initial, one-story, multi-tenant building with 18,000 square feet of office, laboratory and classroom space is aimed at technology-based companies that will do business with the schools and laboratories at the fort. The university plans to develop more than 100,000 square feet for multi-tenant lease, and lease land for tenant development of another 300,000 square feet. The development is on 62 acres of Fort Leonard Wood, a 61,000-acre Army post in Missouri's Ozark Mountains.

Regional Economic Development Stimulus

This initial project is a solid start toward what its proponents envision as a 250-acre park. As the park grows, local proponents expect the park will support the fort's training and research missions; provide more jobs for military spouses and area residents; encourage investment in the region; and promote more efficient use of the installation's underutilized utilities. Eventually, the new lease rental stream will allow for upgrading of the fort's infrastructure. It is not just Army officials who have these high hopes; the state of Missouri and the University of Missouri System have signed on as enthusiastic partners.

The concept is somewhat similar to that at Brooks City-Base in San Antonio, where the Air Force is transferring Brooks Air Force Base to the city. The city then will develop the property for several different uses, including a 150-acre technology park. The Air Force will continue operations at Brooks, leasing back from the city just what is needed for military operations.

There are some key differences, however. The Department of Defense only is leasing a small portion of land at Fort Leonard Wood over the long term, not structures and clearly not the entire installation. Brooks needed special federal legislation to make that effort happen; Fort Leonard Wood's effort is authorized under 10 USC 2667, a federal leasing provision that any installation can use. Moreover, Brooks is in the heart of a major city, and its developers are hoping the project will catalyze revitalization of a major swath of south San Antonio, which has long needed an economic boost. The property has substantially more value per square foot than the land today at Fort Leonard Wood.

Although Fort Leonard Wood sits in the middle of a region of more than 200,000 people, the region is rural. The closest city of substantial size to Fort Leonard Wood is Springfield, roughly 75 miles away. Nonetheless, Missouri leaders expect the technology park will boost statewide efforts to become a magnet for life sciences-related business.

New Creative Army Facility Outlook

From the Army garrison's leadership perspective, "We are kind of in the right place at the right time." The fort, which served largely as a training post since open-

---

Ron Selfors is a project director for Missouri Enterprise, a business and economic development, not-for-profit corporation headquartered in Rolla, Mo. Ron previously served for nine years as the deputy garrison commander at Fort Leonard Wood. The chapter has been reprinted from the Summer 2003 edition of Economic Development Journal. He can be reached at rselfors@missourienterprise.org.

ing in 1941, saw an influx of new activity as a result of the 1995 base realignment and closure decisions. The Army's Engineering School was joined by the Chemical Defense and Military Police schools to form what is now known as the Maneuver Support Center. The Marine Corps, Air Force and Navy send personnel there for training as well, making the fort home to the U.S. military's largest joint service training mission.

In addition to training, the installation has important science and technology development missions as combat developer and battle laboratory for chemical defense (including nuclear, biological and chemical), engineering (including civil, geospatial and environmental) and military police functions across the Army.

The Army embraces the fact that the park enables its corporate and academic partners to collocate with the military at Fort Leonard Wood. The resulting synergy is improving the Army's ability to address the critical science and technology challenges it faces today as it transforms into the objective force of tomorrow and addresses the urgent needs of protection and security today.

Despite the recent mission growth, the installation's water, sewer and other utilities are operating only at about half their capacity. Allowing civilian business and research activity on the post would increase the number of entities paying to use the utilities and helps the base's bottom line.

Moreover, much of the industrial side of the post, including its public works area, consists of World War II-era wooden structures. The Army had made it clear that the inefficient infrastructure did not have a high priority for federal budget decision-makers. The resulting local response was: "If the Army budget can't handle the needed infrastructure improvements, the community and the local fort will have do it ourselves."

Fort Leonard Wood hired the Logistics Management Institute (LMI), a McLean, Va.,-based consulting firm, to do a feasibility study and possible business plan for an industrial or technology park. Under the LMI approach, as the park builds out to about 250 acres, the income stream to the Army from the ground lease will support most or all of the cost for the Army to lease a new industrial operations facility within the park. The new facility would allow the post to demolish most of its remaining WWII wood buildings, significantly improve effectiveness of its logistics and public works operations, and reduce by half the needed facility space.

The consultant determined that a business plan could be developed that would benefit the Army, a developer and tenants in the proposed park. The consultant also said the post's rural location made finding a private-sector developer for the initial project unlikely.

Public entities, however, might take an interest. Their return of investment expectations would be less and they would share many of the non-financial objectives that the installation has (e.g., new jobs). Public entities, in fact, did take an interest — specifically, the University of Missouri System and the state government.

The university system has a major campus 25 miles away in Rolla. The University of Missouri-Rolla is home to a nationally ranked engineering school and one of the state's four Innovation Centers, which provide technical assistance and incubation services to new and expanding technology-based businesses. The installation itself was no stranger to educational pursuits, hosting education and training programs from seven different colleges and universities. Moreover, the state previously collaborated with the university system to establish the Missouri Research Park, which brought 15 companies and more than 1,700 jobs to St. Charles, roughly 30 miles northeast of St. Louis. Because of this success, state and university officials were quite willing to consider the concept of a technology park in a different part of the state.

The park at Fort Leonard Wood meshes nicely with the state's goal of developing its life science industry clusters. Officials had targeted St. Louis for development as a world-class animal and plant sciences center and Kansas City as a world-class health sciences center. The state decided the Fort Leonard Wood/Rolla region, with the Maneuver Support Center, the University of Missouri-Rolla and a major element of the United States Geological Survey at Rolla, could become a new center for the environmental science industry.

The Rationale for the Technology Park

According to Rick Prugh, director of the Missouri Enterprise Innovation Center in Rolla, the university has abundant research and development expertise. In addition, the fort itself had a good supply of subject matter experts. In effect, "the fort personnel represent the field users of the technology," Prugh pointed out.

In addition, the post already does business with numerous contractors in the region. An on-post technology park would promote easier interaction among the researchers, the businesses and their customers. "If I was the head of a business wanting to supply or research needs for the military in engineering, military police, bio-chemical defense, maneuver support or homeland security, I'd put a business development office in the tech park," said Prugh.

The park also provides the Army with a surge infrastructure capability to support new or expanding missions. The traditional military construction program often takes five years or more to add infrastructure to an installation. The park provides the capability for the Army (or other federal agencies) to rapidly lease needed office, classroom or laboratory space and implement a new mission well before the military construction program can react. Once military construction program space becomes available, the space in the park can be used for other new missions or for commercial/academic use.

What about post-September 11 security concerns? Like most other U.S. military installations, Fort Leonard Wood no longer allows civilian visitors simply to come and go as they please. But this change is a bonus for technology park tenants, who might have security needs of their own. Many civilian research parks and manufacturing centers have security provisions equal to or higher than that of the post.

Structure of the Technology Park Lease

The consultant study recommended setting aside 250 acres for the technology park. But when Fort Leonard Wood asked the Army for permission to lease that amount of land, Washington balked and suggested that it was too much too soon. At that time, the Army and the Department of Defense were working with Congress to get enhancements passed to the law that allows the services to lease non-excess land to non-federal entities (10 USC 2667). The Army did not want to jeopardize this effort. Instead, the fort was permitted to lease 62 acres to the University of Missouri System for 33 years, with an option to extend the lease another 33 years.

Under the deal drawn up by the various players, the Army initially receives a base rent of $500 per acre per year, plus 7 percent of net revenues from subleasing, defined as gross revenue minus allowable expenses. The rental rate is to be reviewed every five years. As the park matures, the income stream is expected to become substantial. With the enhanced use leasing provisions now available under 10 USC 2667, the fort intends eventually to expand the park to the full 250 acres and lease substantial warehouse and other space in lieu of cash payments.

Structures in the technology park must follow Fort Leonard Wood design guidelines and covenants. Permitted uses include office, education, R&D, light assembly and light warehouse/distribution. Heavy manufacturing and polluting industries are banned.

The university system and the state each committed $2 million toward the deal. The university is the managing partner, entitled to 55 percent of any returns on investment. The other 45 percent goes to the Missouri Technology Corp., a governor-appointed, quasi-governmental organization created to manage the state's investment in economic development initiatives like the technology park.

The university maintains the park's common areas and public infrastructure. Tenants leasing land for their own buildings are responsible for all taxes, insurance and ground maintenance of their sites. These costs are included in the rent paid by those leasing space in buildings constructed by the university.

Tenants are moving into the park's first building. Features include broadband network access; close proximity to interstate highways, rail transport and a regional airport; great educational opportunities; and quality life in the country. Fourteen tenants are in the first building and more are lining up.

Because the first building is filling up fast, plans are under way for the second building. Since the first building has proved the market exists for tech park space at Fort Leonard Wood, this second building provides an opportunity to begin the transition to private investment. The first building is totally owned by the university and the state. There is no debt to service. Because the first building has been successful, the university is seeking to sell it to a private owner-operator. The proceeds from the sale will be used to help finance the second building. Private parties will be given an opportunity to invest in the second building as well. Over time, it is envisioned that the park will fully transition to private ownership.

Job Creation Goal

Another important feature is the available workforce. In fact, one of the reasons post officials have been keen on developing the technology park is the area's current shortage of jobs for the spouses of installation personnel. For instance, a 1997 study by the Families & Work Institute showed that about 78 percent of all U.S. married couples have dual incomes. For military families alone, the U.S. Bureau of Labor Statistics indicates that the percentage of working spouses in the military is much lower, at 58 percent.

But at Fort Leonard Wood, only 45 percent of families have two incomes. To meet just the military average, more than 330 jobs would need to be created. To meet the national average, more than 850 jobs would be needed. Since the technology park obviously cannot limit hiring strictly to military spouses, the number of new jobs eventually will need to be higher still.

Many employers nationwide have come to appreciate the benefits of locating near a military base. The spouses tend to have good skills and work habits. They already have access to health care and childcare services through their spouses' military benefits. Plus, the region around the fort tends to appeal to military retirees who also have benefits and may be looking for second careers, thereby increasing the available workforce further.

In the past, some in the business world balked at dealing with the military, state government and university systems — three types of entities all infamous for their bureaucracies. "Starting the park was like trying to turn around three Titanics," Prugh joked. "But the good news is, now that the master lease is signed, it's very easy for actual tenants to rent space or land from the university at Fort Leonard Wood."

Fort Leonard Wood provides a good model for those installations that are not located in urban areas and that do not have a lot of underutilized, but high-demand facilities available for leasing. Keys to the Army's success here have been a willingness to partner with the state and its university system and to have a shared vision.

Chapter 15
EXCHANGE AUTHORITY: THE DUBLIN EXPERIMENT

By Kurt Haglund

The Army Reserve is continuing to work with its real property exchange (RPX) authorities in a quid pro quo exchange of an asset (land) for facilities using no appropriated dollars. The Army is in a cooperative initiative with the city of Dublin, Calif., and is pursuing these objectives at Parks Reserve Forces Training Area (RFTA). The potential benefits of success, both for the Army and the city of Dublin, are considerable.

Parks RFTA is a sprawling, 2,300-acre training installation situated in the hill country east of Oakland, in the San Francisco Bay area of northern California. The northern two-thirds of the base is largely undeveloped, open range areas used for a variety of training exercises. The southern one-third includes a hodgepodge of classrooms, administration buildings, barracks, machinery storage, warehouses, and service and support uses that date mostly from the late 1940s and 1950s.

The extreme southern portion of the base (about 182 acres) is largely undeveloped, and penetrates deep into the heart of central Dublin. This parcel is bordered on the east by a number of major Class A office buildings and retail establishments situated along Arnold Road, and on the west by middle and high-end residential (single-family and multi-family) development along Dougherty Road. Alameda County's mixed-use Transit Center development, located adjacent to the BART station and Interstate 580, lies immediately across Dublin Boulevard from the site's southern boundary.

The Problem, from the Army's Perspective

Parks RFTA is the primary location for Army Reserve training in the Bay area. Retention and expansion of its increasingly important mission is dependent upon the Army's ability to make major improvements at the base in the near term, including the construction of new training facilities, classroom space, billeting and family housing, recreational facilities, site infrastructure and a variety of service and support uses.

Given the realities of the DOD budget process, however, and the intense competition among all services for scarce military construction (MILCON) appropriations each year, it would realistically take more than 20 years of congressional appropriations to fund these needed improvements. From the Army's perspective, MILCON by itself is not a reasonable alternative. Creative solutions, likely involving participation by a number of public and private parties and combined funding from a variety of sources, is required.

The Army's Approach

The Army's approach recognizes that the value of its land is heavily influenced by the land use and rezoning decisions of affected local jurisdictions. Accordingly, the Army's basic strategy was first to prepare a master plan and consolidate the development of government improvements and reserve forces training facilities into an area generally north of Sixth Street (i.e., the cantonment area), freeing up a 182-acre opportunity site at the southern edge of the installation for private sector development.

Second, in close cooperation with the city of Dublin, the Dublin-San Ramone Sewer & Water District, Alameda County and others, the Army "entitled" this important opportunity site for subsequent private reuse. Finally, the Army proposed to utilize the powers granted specifically to the Reserve Forces under 10 USC 18233 to market the rezoned property to one or more private developers for subsequent construction consistent with the plan, and apply the proceeds from disposition as "in kind" construction to provide the needed Army improvements.

Kurt Haglund serves as senior vice president of The Staubach Co., a real estate economics advisory firm in Washington, D.C. He can be reached at kurt.haglund@staubach.com.

Benefits – A "Win-Win" for the Army and for the City

The benefits to the Army and, consequently, to the federal taxpayer are clear. Every dollar generated from private disposition is a dollar that can be used to provide needed Army facilities faster; i.e., without having to rely on annual congressional appropriations.

Similarly, the potential benefits to the city of Dublin are substantial. Implementation consistent with the Army's approach provides for the city's active participation in all planning and decision-making concerning development that will occur on the site. It permits needed roadway improvements to be made, and provides linkages through the site that will relieve congestion throughout the area.

The Army's approach generates significant new impact fees, tax revenue and jobs in the local economy, and it allows key local issues concerning affordable housing, schools, park land and recreational areas, etc., to be considered and addressed comprehensively, within the context of the overall development.

The New Understanding – Lessons Learned

The Army's approach to redevelopment at Parks RFTA reflects a number of changes and new insights that will go a long way toward ensuring success. Specifically:

- The Army perceives the city to be its partner in the development process, recognizes the importance of the site within the fabric of the local community, and understands that the project only will be successful if it also can be made to succeed for the city.
- The Army understands the concept of clustered density and transferred development rights from one part of the site to another, and recognizes that fair market value in projects of this nature must be viewed in the aggregate, and is largely dependent upon the encumbrances placed on it by the local jurisdiction.
- The Army understands that the value ultimately achieved from the site in disposition may not be sufficient to fund the full cost of Army facilities programmed for construction in the cantonment area. Army expectations must be maintained at reasonable levels. Fair market value, and not the estimated cost of Army facilities, is the objective.
- The Army realizes that, for the most part, local jurisdictions are not in the real estate development business, and are seldom interested in becoming directly involved in ownership or the site's chain of custody. Local government entities need to control what happens on the land, and they can do that through the rezoning or entitlement process without becoming exposed to financial risk or the environmental liabilities associated with ownership.

Creating Value in Real Estate

Although this project has been under way for three years, there is reason for optimism. The city seemingly recognizes that a reasonable level of development — sufficient to justify the Army's decision to dispose of the property — must be provided. The Army recognizes the importance of the entitlement process in the creation of value on its land. The challenge is to maintain these new understandings, and the levels of cooperation and goodwill initially achieved between the Army and the city, throughout the lengthy analysis period and approval process.

Chapter 16

ENHANCED-USE LEASING AUTHORITY PRESERVES FORT SAM HOUSTON'S HISTORIC LANDMARKS

By Tom Chandler and David Knisely

The Department of Defense's sustained emphasis on transforming the U.S. military into a leaner, more effective force has reduced military installation budgets to the extent that preserving vacated facilities — regardless of their historical significance — has become a nearly impossible task. With one of the nation's premier collections of historic military properties representing periods dating back to the Indian Wars located at Fort Sam Houston, both the Army and the city of San Antonio stand to lose much from such budget constraints.

Foremost among the vacant historic properties on the post is the former "Home of Army Medicine," the stunning seven-story Spanish Baroque-style former Brooke Army Medical Center (Old BAMC), which is the crown of the post's dramatic parade grounds. Together with its two historic annexes, the North and South Beach Pavilions, the old hospital complex was replaced by a new 450-bed hospital in 1995. By 1998, all three former hospital buildings were listed as "threatened" by the National Park Service.

After the buildings were vacated, Fort Sam Houston leaders conducted an exhaustive but ultimately unsuccessful search for other Army agencies that might relocate to the post and occupy them. In 1999, the Army decided to make a final effort to save these buildings, and devised a plan to attract private development capital and expertise to adapt and reuse them.

Four years later, an innovative public/private initiative has resulted in the restoration and renovation of the former hospital complex as "The Offices at Ft. Sam" — a 450,000-square-foot Class A office project available for both public and private sector use. In May 2003, the first lease at North Beach Pavilion was consummated with the U.S. Army Medical Information Systems & Services Agency. Two additional major leases were completed in June 2003, and by July construction was well under way at both Old BAMC and the North Beach Pavilion. Occupancy of the North Beach Pavilion occurred in February 2004, and Old BAMC is scheduled to be complete in May 2004.

Officials at Fort Sam Houston helped restore the former Brooke Army Medical Center, a National Historic Monument, and enhance the installation's economic value.

From Banks and Burger Joints to Historic Preservation

The development of The Offices at Ft. Sam was made possible by the innovative use and expansion of the provisions of 10 USC 2667, which had previously been used to facilitate the procurement of services such as banks and restaurants. Working together with the members of the Texas congressional delegation, the Army succeeded in gaining approval for the expanded use of these provisions in order to employ private development capital and expertise to achieve the "enhanced use" of the former hospital complex.

Tom Chandler is the president of Orion Partners Inc.

David Knisely is a partner with the Boston law firm of Garrity and Knisely. He can be reached at garrityknisely@aol.com.

At the initiative's inception, the installation staff, working closely with Army headquarters, established six primary goals for the Fort Sam Houston leasing initiative: (1) preserving historic assets; (2) minimizing operating costs; (3) finding uses compatible with Fort Sam Houston missions; (4) maintaining positive community relations; (5) integrating development activities with cultural resources that support the post's mission; and (6) employing commercial best business practices.

After considering proposals from several major developer teams, in April 2000 the Army selected the team consisting of San Antonio's Orion Partners, the developer member; Pennsylvania-based Weston Solutions Inc., which would act as financial partner and supervise environmental remediation; Cross & Company, a San Antonio brokerage firm that would act as leasing agent; and Garrity and Knisely, a Boston law firm specializing in the privatization of military assets.

Working together, the team created a business plan and lease package that would provide for the preservation of the old BAMC Hospital complex. A little more than a year later, the Army, working through the Army Corps of Engineers' Fort Worth District and the developer team, signed three 50-year leases (one for each of the buildings). The team assumed the Army's obligations to preserve and maintain the properties and began to seek tenants for the nearly half-million square feet of "new" office space. These leases were based on "financeable" lease forms based on BRAC leases in furtherance of conveyance.

After the events of Sept. 11, 2001, commanders of U.S. military installations were ordered by the Pentagon to take all necessary steps to maximize security. Overnight, Fort Sam Houston, which had been an open post, was closed, and what had seemed to be a wide-open office space leasing opportunity changed dramatically.

After seriously considering the effect of this change on its business plan for the Fort Sam Houston properties, the developer team decided to proceed to convert Old BAMC and the Beach Pavilions into office space for use by public and private entities. The prospective tenant universe remained unchanged, but the post's limited access restricted the primary market opportunity to users valuing perimeter security.

Historical Preservation and Reuse of Property

Working with the Texas State Historic Preservation Office, the developers devised a preservation plan that provided for restoration of the exterior masonry curtain walls and cast stone embellishments of the Spanish renaissance buildings, and reglazing and repainting the windows to their original colors. Designated interior areas of the buildings also will be preserved, and all remaining interior walls will be removed, reducing the buildings to essentially "shell" condition. New state-of-the-art HVAC, plumbing, life safety, access control and vertical transportation systems will be installed and interior spaces will be custom-designed and built to meet each tenant's unique specifications.

Future Applications of Enhanced-Use Leasing

The success of The Offices at Ft. Sam ensures the viability of enhanced-use leasing as a means of preserving and reusing underutilized historic properties and other assets at active military installations nationwide. Such properties may include warehouses, industrial facilities and vacant, developable land.

The Army and other military departments actively are encouraging installations to pursue and bring forward innovative enhanced-use lease proposals. As the concept of enhanced-use leasing matures, other landmarks and underutilized facilities on military installations across the nation can be preserved to serve as both cultural and economic assets for many years to come.

Chapter 17

WALTER REED ARMY MEDICAL CENTER — ENHANCED-USE LEASE INITIATIVE

By Alan D. King

The military departments face the challenge of dealing with a large backlog of facility maintenance and repair and insufficient funding devoted to sustainment, restoration and modernization. To address this issue, the Department of Defense is pursuing an installation strategy to reduce infrastructure and base operation costs and reshape military installations to meet the needs of the 21st century. After the Cold War, military force structure was reduced by 36 percent. Consequently, DOD was left with infrastructure it no longer needed for current military operations.

To address this imbalance, the department has undergone four rounds of base realignments and closures that have reduced its infrastructure holdings by about 21 percent. Even after the realignment and closures, the department estimates that 20-25 percent of its infrastructure is not needed or is in the wrong location to meet current mission requirements.

Meanwhile, service budgets frequently have been insufficient to address facility needs. In December 2001, Congress passed the FY 2002 National Defense Authorization Act, which gave the department the authority for another round of BRAC in 2005. The department estimates it will save approximately $3 billion annually following the latest realignments and closures.

Although DOD views the BRAC process as having the greatest impact in terms of savings, it is only one initiative in a multi-part strategy to reshape and make the services' installations more efficient. For open bases, important cost saving initiatives include housing and utility privatization, competitive sourcing of non-inherently governmental functions, demolition, and leasing of real property and facilities.

Army Process in Enhanced Use Leasing

The Army has taken the lead in efforts to leverage real property assets through the enhanced-use lease (EUL) authority for the benefit of its installations. Given current budget constraints — particularly for construction, restoration of historic properties, and operations and maintenance — the use of the EUL authority within the Army is increasing.

The Army has approached its EUL projects with the following process: (1) project identification; (2) market analysis and concept approval; (3) solicitation development and evaluation; and (4) final plan development. First and foremost, the EUL process is driven by the installation. Real estate assets (land and/or buildings) with potential enhanced uses are identified by the installation and determined to be non-excess to its mission. A market analysis is performed to determine the potential viability and long-term attractiveness of any proposed EUL. Concept approval then is briefed to the Army chain of command and if it is found to be a viable project, the assistant secretary of the Army for installations and environment approves it.

The next step is drafting a scope for the project and finalizing the notice of availability to lease (NOL), the document that will be used to select a developer. The developer will be selected for the lease opportunity through a competitive request for qualifications that emphasizes the lessee's general capabilities, qualifications, past performance, financial capability and financial return expectations, as well as experience in specific property attributes, such as historic properties.

The NOL is published in various forums for 45 days. Also during this period, an industry forum is held that allows all potential developers an opportunity to gain more in-depth knowledge of the project as well as provide input into the draft notice.

A source selection evaluation board (SSEB) is established that will evaluate all the proposals against the notice criteria. The SSEB will hear oral presentations from those firms it deems highly qualified based on their qualifications with regard to the NOL criteria.

Alan D. King serves as the deputy to the garrison commander at Walter Reed Army Medical Center. He also served on the Army staff before his Walter Reed assignment. He can be reached at alan.king2@usarmy.mil.

After a developer is selected, work begins with the installation to co-develop a business and lease plan, which addresses all construction or renovation, financial, and management details of the project. Negotiation of a mutually acceptable business and leasing plan is a critical step in this process. The business and leasing plan enumerates specific terms of the business arrangement including the lessee's plans for financing the effort, the term of the lease (up to 50 years) and parameters concerning subleasing.

The lessee's financial return from the project will come from rents earned through sublease agreements while the installation will receive ground rent in the form of either cash and/or in-kind services, which cannot be less than the fair market value of the property leased.

Following the completion of all environmental requirements and approval of the business and lease plan by the Army, the installation enters into a prime lease with the developer. An EUL case study involving Walter Reed Army Medical Center is discussed below.

Walter Reed Army Medical Center Case Study

The Walter Reed Army Medical Center (WRAMC) annually provides nearly half of the Army's outpatient visits, and approximately three-fourths of the Army's ambulatory surgeries and inpatient admissions to beneficiaries from the National Capital Area and around the world. This campus provides world-class medical, research and teaching through its Walter Reed Hospital, Walter Reed Army Institute of Research, the Armed Forces Institute of Pathology, the Jackson Foundation, the Center for Prostate Disease Research, the National Cancer Institute, the Comprehensive Breast Center, the Deployment Health Clinical Center and the U.S. Army Physical Disability Agency. WRAMC is the pre-eminent federal medical center for worldwide referral care, clinical education and clinical research.

Nearly 2,700 U.S. soldiers have been injured since the start of Operation Iraqi Freedom. The most serious of the injured eventually are brought to Walter Reed. The hospital, which can accommodate 260 inpatients, has added staff to cope with the influx of wounded from Iraq and has treated more than 2,300 soldiers since the war began. Walter Reed also is the DOD amputee center and has treated 58 amputees from Iraq so far, as well as 13 from Afghanistan.

In addition to new requirements that are continually occurring at Walter Reed, there are related federal agencies that occupy leased space in research and development and business parks around the region. This creates an ongoing need for additional laboratory and associated administrative space among agencies within the National Capital Region that prefer the security of being located on a military installation. Walter Reed has turned to the EUL process to assist in the development of ongoing facilities requirement, beginning with the historic Building 40 at the center.

Building 40 EUL

Most recently, the Army completed an EUL project at Walter Reed Army Medical Center that will renovate the historically significant Building 40. The primary goal of this project is to preserve and reuse Building 40, a 246,000-square-foot facility. Building 40 has been designated as a major contributing resource in a National Register-eligible district. The Army considered many options such as:

- Demolition, which was considered unacceptable because it would result in the permanent loss of this historically significant building.
- "Excessing" the building, which was considered unacceptable because it raised problems relating to the installation's territorial integrity.
- Removal of the building intact, which was considered unacceptable due to the technical difficulties.
- Requesting major military construction funding, which had never been made available, to renovate the building.

The House Armed Services Committee approved the project in June 2002. The Army approved the NOL in December 2002. Walter Reed held its industry forum in February 2003 and released its final NOL in March 2003. The SSEB selected Keenan Development Ventures LLC (KDV) as the developer in May 2003. A partnering session was held in June 2003 in conjunction with the start of the development of the business and lease plan. The business and lease plan was submitted to the Army in December 2003. The plan was approved in January 2004.

What does the deal look like? The Army signed a 50-year prime lease with KDV. In exchange for the value of the leased assets, KDV will finance, plan, renovate, operate, maintain and manage the assets for the term of the lease. KDV will create a modern and efficient building with more than 220,000 rentable square feet of space. The developer will provide $62 million in capital for the renovation. WRAMC will receive more than $20 million as in-kind services and have an estimated cost avoidance of $75 million over the lease term. Building 40 will be maintained to commercial office standards (BOMA B+). WRAMC will receive the building and land back at the end of the lease term.

TEN THINGS YOU ABSOLUTELY MUST KNOW ABOUT OMB SCORING

1. OMB will be involved in EUL projects per OMB Circular A-11: "Agencies should consult with OMB in cases where EUL and private-public partnerships are involved."
2. In general, Section 2667 out-leases are not "scored."
3. A ground lease's "in-kind rent" can include provision of services or construction of facilities. But, Circular A-11 requires OMB review of rent (cash) for lease of space ("leasebacks") when space is held through an EUL.
4. In EULs, where the Government will lease back space, you cannot link the ground lease to the federal leaseback of space.
5. In EULs, where the Government will lease space, you cannot provide guaranteed federal leaseback or financing. Instead, you must transfer ownership risks and costs to the developer.
6. In EULs, where the Government will lease back space, you cannot have variable rent on the ground lease.
7. Present value of space lease payments over the term cannot exceed 90% of the fair market value of the asset.
8. Fair market value must be determined using GSA methodology.
9. OMB has provided guidance on the structuring of EULs and this guidance has been utilized in past projects.
10. Communicate early and openly with OMB regarding project structuring.

Source: U.S. Army Corps of Engineers and Ernst & Young, Enhanced Use Leasing Guide, (Washington, 2004), p. 23.

How will we structure any federal lease of space in the building <u>without triggering capital lease scoring by the Office of Management and Budget (OMB)</u>? The Army will not enter into an "equity partnership" with KDV. The Army also will not participate in the daily management of the project. The lease is structured clearly as an "operating lease," covering a lease period of 16 years or less back to the federal agency involved. All of the agreements will be structured to sufficiently protect the interests of the government while minimizing both government control and liability. The project will operate in all aspects exactly the same as if it were located on private property.

As shown in the accompanying insert, there are "10 important things you absolutely must know about OMB scoring" to proceed effectively with an EUL project.

WRAMC has retained the right of first refusal to lease and occupy renovated space in Building 40, but has made no guarantee of government occupancy of the space. Any federal lease of space in Building 40 will be subject to OMB Circular A-11, Appendix A/B guidelines for capital/operating lease scoring. Fair market value will be calculated using the standard A-11 and GSA guidelines. The federal government will not provide a guarantee of financing as part of the transaction or otherwise assume the risk of the private developer.

Next on the Horizon: Building 50

A "Title 10 Report" for the private sector development of approximately 8 acres of land located on the WRAMC campus has been submitted to the House and Senate Armed Services committees. This proposed action will leverage the value of WRAMC's real property assets for the benefit of the installation through the construction of additional administrative and research space to create collaborative opportunities with other health care related entities, the creation of additional parking to help ease the current severe shortage, and the receipt of in-kind rent for the property leased.

The notice of availability to lease will be issued in the first quarter of 2004. Further details can be obtained at the project Web site, http://eul.ey.com.

Conclusion: Unleashing Untapped Real Property Value

The Army's enhanced-use lease initiative can benefit the installation by unleashing the untapped value of real property assets by taking non-excess land and facilities and putting them to productive use. Private sector resources gained through expanded leasing efforts can reduce or eliminate ongoing operations and maintenance costs and provide the opportunity to enhance military readiness and well-being. In addition, appropriated funds can then be directed towards alternative installation priorities.

Chapter 18

WORKING WITH THE MILITARY ON PRIVATIZATION: TWO CAUTIONS — ENGINEER PROVING GROUND EXPERIENCE

By John Lynch

With all of the attention devoted recently to facility privatization, enhanced-use leases, and the new DOD efficient facilities initiative, there are two important cautions that communities should take into consideration.

The first caution is whether the military department representatives with whom you are working really understand how commercial real estate values are created in the marketplace and in cooperation with local governments. In effect, will the military department be an informed and reliable long-term business partner? The second caution is whether the community will incur a significant environmental and legal liability related to the existing property conditions on the military installation.

Army Engineer Proving Ground: An Early Privatization Example

One of the early DOD privatization initiatives was the Army proposal in 1988-1989 to develop a mixed-use office-residential center on the little-used Engineer Proving Ground (EPG) in Fairfax County, Va. EPG is an 800-acre sub-post to Fort Belvoir — strategically located about two miles south of the intersection of the Washington Beltway (I-495) and the main north-south interstate (I-95) into Washington. The proposed Fairfax County Parkway would traverse the western edge of EPG, thereby enhancing the future long-term value of the property. An existing arm of the parkway had already been completed just to the north of the EPG property.

Early Army discussions with Fairfax County in 1988, indicated broad county support for the EPG privatization project, where the Army would serve as its own master developer for the property. Based on an approved county plan and land use zoning, the Army would release four to five major blocks of land incrementally over 20-25 years to the private sector for development.

The first BRAC Commission, in December 1988, endorsed the Army's EPG privatization approach. Special legislation (Section 2821) was approved in the FY 1990 National Defense Authorization Act, allowing the Army to proceed as master developer with the EPG project and to reuse the property sales proceeds for other Army facility needs. Section 2821 called for the county and the state of Virginia to approve the Army's master plan. Any environmental liability on the EPG property would remain an Army — and not a county — responsibility.

A 32-member county citizens advisory task force deliberated with the Army and its planning consultant over a three-year period. The Army development plan called for a 17.5 million-square-foot (MSF) mixed-use, office-residential project at a floor-area ratio (FAR) of 0.49. As the master developer, the Army offered to take a leadership role in developing a "people-mover" transit capacity to the site from the nearby Springfield Metro station and to reduce normal single passenger vehicle access.

With the endorsement of the EPG citizens task force and with broad public support, the Fairfax County Board of Supervisors approved the EPG area plan in February 1994, by a resounding 8-1 vote. The Army estimated that its plan, when approved for land use zoning by the Board of Supervisors, would have yielded about $180 million to $200 million in net proceeds to the Army over the 20-to-25-year period.

A key element in creating future value at EPG is that the Army would not incur interest or holding costs; nor would the Army be called upon to discount the future income stream by at least 20 percent annually for developer's uncertainty.

John Lynch retired in 1989 as associate director of economic adjustment in the Office of the Secretary of Defense. He joined the BBP Associates development advisory team to the Army on the EPG project in early 1990. From 1993 to 1995, John served as a pro bono advisor on land use zoning and fiscal impacts to the BBP Team and to the Army's EPG Project Manager. In his local community role, he served for 15 years as vice chair and member of the Fairfax County Economic Development Authority. He can be reached at jelynch@aol.com.

Abrupt Change in Direction

The Army completed its land use zoning application requirements during 1994 and early 1995, with cooperation from the EPG task force and the county. The final zoning case already was scheduled before the Board of Supervisors in late July 1995, when the assistant secretary of the Army for installations and logistics in mid-June 1995 cancelled the entire EPG privatization project.

The assistant secretary expressed concern over the weak Fairfax County office market at the time. The county's office vacancy rate by 1995 had already declined substantially since the 1991-1992 recession. Then, a new building boom began again within the county in 1996, creating the fourth largest office market in the country at 97.6 million square feet by 2001.

Whether or not the cancellation was due to a change in funding philosophy (appropriated dollar versus private sector funding), the project cancellation meant an immediate reduction in the inherent Army value in the EPG property. The Army's baseline value without county zoning, such as the 1995 Army appraisal (about $18.7 million), was about one-tenth the $200 million Army value that would have been generated had the Army proceeded with its final zoning hearing for EPG, scheduled six weeks later in July 1995.

One important lesson is that real estate values are created <u>not merely by the acreage available for development but by the land use zoning and density</u> approved by a local jurisdiction — together with the road access and infrastructure serving the site.

Limited Army-County Cooperation: 1995-2002

The Army indicated it would cooperate with Fairfax County on a new EPG project approach. Focusing on a smaller scale (0.42 FAR) project, the county offered in August 1995, to conduct the EPG land use planning process using limited planning resources from the Army. Under the county's offer, the Army would receive its full fair market value appraisal — together with 40 percent of all net future development proceeds.

The Army's differing EPG outlook from the county's became clearer in the Army's last minute proposed language for the House-Senate conference committee report on the FY 1996 National Defense Authorization Act. The Army's new proposed EPG legislation (Section 2854) was largely accepted by the county. But the Army's attempt to impose the entire EPG planning responsibility on Fairfax County in the conference report language was not accepted by the conference committee, due to the intervention of Virginia Sen. John Warner.

The new Section 2854 authority called for Fairfax County to be the only recipient of the EPG property rather than private sector developers — meaning that the county would now stand in the Army's chain of environmental liability under the Comprehensive Environmental Response, Compensation & Liability Act (CERCLA). The "consideration" to the county in acquiring the EPG property would be the standard "fair market value, as determined by the Secretary."

Later, the county would learn that the Army expected the county to automatically rezone EPG to the level in the Army's original 1994 plan. Moreover, the Army's definition of "fair market value" would not be based on the Army's own 1995 appraisal ($18.7 million), but on the $200 million multi-year net cash flow from the Army's 1994 EPG Plan — just as though the Army had proceeded through its scheduled July 1995 zoning hearing.

In effect, the Army was imposing a new fair market value standard for EPG (a non-BRAC property) similar to the July 1995 DOD guidelines for BRAC economic development conveyances. Under Virginia law, Fairfax County would be required to provide the needed public infrastructure to support the approved zoning but without the opportunity to secure "proffers" (contributions) from the Army, as the property owner.

During the subsequent seven years, the Army made several offers to retain its own planning consultant and even an Urban Land Institute panel for EPG, but little came from these initiatives. At every opportunity, the Army also reiterated its request for $200 million in compensation for the EPG property.

In July 2001, Fairfax County approved a new land use plan to guide the future reuse of EPG. The new county plan permits 7.4 million square feet of mixed-use development at 0.17 FAR concentrated on the east side of EPG — with the western portions to be preserved for park and recreational use.

At that time (July 1991), the Army requested Fairfax County's support for a new Army initiative amending Section 2854 and allowing for the open sale of the EPG. Subject to the new plan and the transfer of the western EPG parcel for park purposes at the time of the final Army sale, the county agreed to the Army's legislative request. This Army proposal, however, was overtaken by the events of Sept. 11, 2001.

As shown in the table below, the Army has in effect "<u>negotiated downhill</u>" over the past nine years: from a 1995 EPG project at 0.49 FAR (valued at $180 million to $200 million) to a county plan level at 0.17 FAR, but with a highly uncertain commercial market value today

SUMMARY OF ALTERNATIVE EPG FINANCIAL RETURNS TO THE ARMY

EPG Development Approach	FAR Density	New EPG Value	Return to the Army	Return to Fairfax County
Army Development (1989 to June 1995)	0.49 FAR 17.5 MSF	$180 M to $200 M	$180 M to $200 M	
Fairfax County August 1995 Proposal	0.42 FAR 14.9 MSF	$130 M	FMV* = $30 M Growth = $40 M $70 M	Growth = $60 M
Public Sale – Based on July 2001 County Plan	0.17 FAR 7.4 MSF	Uncertain: Bid solicitation would cite county zoning (1 DU/5 acres). Little spec. value from parkway access, especially in the face of the latest county office vacancy rate (15.6%).		

* The Army subsequently released information on its 1995 fair market value appraisal at $18.7 million.

due in part to the lack of any meaningful road access to EPG.

County Parkway Access

The Army's value in EPG is limited because there are only two small access roads, one entering on the east side and the other on the west. Major access to EPG would depend primarily on opening the one remaining segment of the Fairfax County Parkway from Fort Belvoir on U.S. Route 1, past I-95, and then to the western portions of the county. This long delayed segment of the parkway would traverse the west side of the EPG property, and would logically qualify as a "public benefit conveyance" for highway purposes. Without this main parkway interchange on the southwest corner, the Army's EPG property is essentially "landlocked" for commercial development purposes.

The transfer of the parkway right-of-way (ROW) from the Army has been delayed at every turn since 1995. In October 1999, Fort Belvoir representatives indicated the ROW transfer was being held hostage by the Army to spur rezoning action by Fairfax County.

In September 2000, Sen. Warner requested expedited action from the Army so that the state and the county could preserve the EPG highway funding, already in place. The secretary of the Army agreed to the ROW transfer, subject to state financing for replacing a small office building. Full state agreement was reached, and authorizing language was included in Section 2836 of the FY 2002 National Defense Authorization Act. In the winter and spring of 2002, the Army offered yet another complicating interpretation delaying the final ROW transfer.

In the meantime, the Army has severely limited its own long-term EPG development values by these delays. Density, and hence commercial real estate values, depend on good highway access that does not exist now at EPG.

Environmental Liability

The Army's EPG environmental impact statement was issued in 1993, showing the needed Army cleanup obligations. Since that time many new previously unidentified contamination sites have been found, created in large part by the property's former use as a "proving ground." Seven solid waste management units have been identified in the parkway ROW; inert test "mines" or grenades had been found; and five former firing ranges have been identified, among other environmental concerns.

In summary, the county did not know what liability it would be assuming under CERCLA by accepting title to or developing EPG under Section 2854. Moreover, the hold harmless and legal indemnification safeguards provided to BRAC properties under Section 330 of the FY 1993 National Defense Authorization Act do not apply to non-BRAC facilities such as EPG.

Section 330 also does not apply at this time to non-BRAC properties under either the enhanced-use leasing authority in 10 USC 2667 or the new DOD efficient facilities initiative. By their location or previous DOD uses, there are some DOD properties that can be redeveloped reasonably by communities with minimum risk. But, as a strong element of caution, communities should think twice as to whether they really want to enter into the military department's chain of environmental liability for a former Army proving ground or a closed ammunition plant — outside of the BRAC process.

EPG Opportunity Loss to the Army

The Engineer Proving Ground was an opportunity lost for both the Army and Fairfax County. It has been a loss to the Army in being able to develop a strategic parcel with a long-term cash flow return to the Army — far beyond any speculative return from any early public bid sale for unzoned property. EPG was similarly a loss for the county in terms of the new jobs and investment potential that could have been attracted to the EPG site by the Army's original development approach.

By mid-2002, the Army Materiel Command and other DOD agencies had approached Fairfax County seeking possible county participation in enhanced-use leases or efficient facilities privatization financing projects "behind the fence" on Fort Belvoir.

The role of the Army as a reliable partner has been further complicated by the Army's reluctance to cooperate with the county in addressing critical road access problems on and adjoining the fort, prompted by the Sept. 11, 2001 attacks. Immediately thereafter, the closely held Army's 1999 force protection and access control program was imposed, limiting access by state highway through Fort Belvoir. The closure was made without any dialogue with the county or the Virginia Department of Transportation (VDOT).

As helpful as the county might wish to be in support of a major local employer, two key questions to Fairfax County would still remain: (1) could the county count on the Army remaining as a knowledgeable and reliable development partner over the long-term (20-25 years), and (2) what are the specific environmental conditions on those parcels (and the possible offsetting protections to the county) where it might be necessary for the county to enter into the Army's chain of environmental liability?

Finally, in another last gasp effort to resolve the impasse, Sen. Warner in May 2002 offered provisions in the Senate version of the FY 2003 National Defense Authorization Act that would allow the Army to sell the surplus EPG property at open public bid. Sen. Warner's provision, adopted as Section 2830 in the act, called for: (1) the competitive bid sale and property reuse to be subject to the county's July 2001 EPG master plan; (2) the transfer of about 135 acres on the northwest side of the property to the county for parkland purposes; and (3) a resolution to a remaining Army interpretation to allow reasonable local ancillary use of the ROW property.

Under this new approach, the county would not be compelled to enter into the Army's uncertain chain of environmental liability for the EPG property. The environmental complications became even more evident when the Army announced in late January 2004 that it would begin a $2.5 million explosive demolition program for the EPG right-of-way and parkland areas involving more than 5,000 unexploded ordnance "anomalies" — most likely "dummy mines filled with wax and a small explosive charge."

It is unclear, however, just how the Northern Virginia real estate market will respond to the proposed EPG property sale in an uncertain 2004-2005 timeframe — in light of the current high but improving office vacancy rate (15.2 percent at year-end 2003) and the lack of any meaningful road access to the EPG property.

In all likelihood, the EPG property cannot realistically be developed in cooperation with the private sector until adequate EPG access is available directly from the parkway. The parkway ROW is not likely to be transferred to VDOT until 2005, and the roadway itself is not scheduled for completion until about 2008, even under the most optimistic VDOT construction forecasts.

Thus the Army's abrupt termination of its EPG privatization initiative in 1995 represented a significant privatization opportunity loss of at least 13-15 years to the Army. From the county's perspective, the Army's EPG proposal after 1995 eventually represented an uncertain environmental and financial "minefield" to be carefully avoided.

Chapter 19

PRIVATIZATION AS VIEWED BY THE GOVERNMENT, THE DEVELOPER AND THE FINANCIER

By Daniel P. Cosgrove

A storm battered boat approached a small island; its three castaways were grateful to be saved. The government official in the boat thought about ways to organize the natives on the island to create a stable society, tax their labors and build a workable retirement system. The banker was overjoyed that he survived, and that he could establish a new loan market on the island, with the potential to make more money in the future. The developer was thinking about how to option the beach, subdivide the island and build huts for sale to the natives.

The moral of the story is that your experience and profession color your perspective. In privatization, financiers and developers have perspectives that are clearly different from that of the government, but all must work together to accomplish the goal of effectively reusing underutilized government property.

The Three Different Perspectives at Fort Monroe

The federal government is seeking to employ the privatization option to convert unused or underutilized government property from fiscal burdens into cash generating assets. Recently, some privatization projects have been unexpectedly successful and have generated substantial funds or relieved the government of horrendous operating costs.

Government officials look at this situation as a win-win for the government. In other cases, the value of the property offered for out-lease has been less than commercially desirable, especially when coupled with restrictions imposed by the government. One example of unrealized potential occurred when the Army offered seven historic 100-year-old, wood-frame duplex houses at Fort Monroe, Va., for lease under the enhanced-use leasing authority (10 USC 2667, as amended).

The Army lacked the funds to keep the dilapidated houses livable. In offering the houses for lease, the Army imposed numerous restrictions. After renovation, the buildings could not be used for residential purposes, parking was limited to two spaces per unit and access to the island base would be controlled by military police regulations. The Army considered the buildings a financial burden that a private developer could turn into an asset that would create profits for the developer and lease payments for the Army. Unfortunately, no proposals were received and the Army was left with the burden of empty historic structures.

Fort Monroe has two other privatization projects on-site. The Chamberlin Hotel on base has operated as a public hotel for decades. It operates under a ground lease that still has more than two decades to run. In the fall of 2003, the hotel was the subject of a foreclosure by the operator's principal lender. As the foreclosure process worked out, the Army still looked at the property as an income generating opportunity, while the operator found it to be a financial disaster and the lender had to resort to foreclosure proceedings to get back as much as possible of its capital. As the Chamberlin Hotel situation proves, the view of the parties depends on their seat at the table.

The other privatization project at Fort Monroe involves a 50-year lease of ground and buildings on-base for redevelopment of military family housing to replace an obsolete 50-year-old housing privatization project. The Army views this as a way to get new housing without a large outlay of construction funds; it also will lower operating costs and improve the quality of life for military families. The developer sees a chance to gain access to a valuable waterfront site that could not otherwise be obtained at any price. The project lender sees an opportunity to provide funds for a proj-

Daniel P. Cosgrove is an attorney and serves as president of Defense Facilities Corp. in Fairfax, Va. He can be reached at dpcosgrove@aol.com.

ect that has strong economics and offers substantial security for its loan. This is a classic win-win situation.

The experience of Fort Monroe covers the three basic views of privatization; the government, the developer and the lender in three different projects. The results were different for each project, because economic factors influenced the outcomes.

The Government's Perspective

The government starts with land and facilities that may or may not have commercial value. It must first decide whether the property is needed for government purposes. Once it has determined that privatization is the best option, the government must decide what it wants in return for the out-lease and what restrictions are to be placed on potential developers.

Since the out-lease also must be compatible with further operation of adjoining government facilities, commercialization is limited to activities that can be accomplished without impacting government missions. The consideration of government activities and the limitation of leasing versus outright purchase may render some properties less than desirable out-lease candidates.

Government personnel have little or no risk at this point and often overestimate the value of their property, while underestimating the cost of generating enough cash flow to justify development and provide the desired lease payments. Additionally, since profit is not the government's concern, time usually is not as pressing an issue for the government as it is for the private developer and financing source. In order to get the most from its underutilized assets, the government must focus on the commercial value and uses of its property in the local economic/political/interest rate environment.

The Developer's Perspective

Developers are the orchestra leaders of real estate development. They coordinate the many specialties necessary for converting underutilized government property into commercially viable income producers. Motivated by profit, most developers seek to create projects that will provide economic returns while limiting risk and liability. Since time is money for developers, they work hard to reduce the cost and time required to propose and then bring projects from concept to operation. Rising interest rates can turn a potentially successful project into a disaster.

Changes in adjoining commercial markets also can impact proposals. Recently, the Air Force proposed swapping a portion of Los Angeles Air Force Base for two new buildings. While the request for proposals was being drafted, the local commercial office market declined to the point that the site was no longer economically viable for office space. The successful developer had to alter its plans to allow for residential rather than office uses, which reduced the value of the government site. At the same time, additional security requirements for the new government structures increased the cost by 15 percent over a single year. While delay did not doom the project, it had a substantial cost.

Developers work against the limitations of governments, interest rates and commercial markets to create viable projects. The developer's perspective usually is based on an analysis of the conditions that impact its goals.

The Financier's Perspective

The financier not only is the source of development funds, but in some cases, he is the "cool head" in a room full of overly optimistic developers and government personnel. Before any development can begin, funds must be obtained to pay the bills for everything from architectural planning to construction and operation of the facilities.

The financier provides the funds when it can be determined that the money loaned probably will be paid back, hopefully with interest. The financier first looks for safety of the capital invested, then interest or profit. While there is risk in almost every deal, the financier tries to minimize the risk by establishing a protocol for repayment. The schedule of debt service is just one part of the repayment protocol that in hard times even can include foreclosure.

Unlike the government official who has no cash invested and minimal risk, or the developer who may reap profits and substantial fees but accepts risk, the financier usually has limited expectations and defined risks. In the end, the financier's interests are closer to that of the government official than the developer, but all three parties must find a way to accommodate their interests to move the project from concept to completion.

Risks and Rewards for the Three Parties

Privatization of government property is like most other real estate development activities: it involves risk and rewards for each party. As with other human activities, the view of each party is based on their expectations and responsibilities.

PART IV: JOINT AIRFIELD USE

Chapter 20
JOINT USE AIRPORT: CITY OF SIERRA VISTA OPERATIONS AT LIBBY ARMY AIRFIELD

By Mayor Thomas J. Hessler & Arthur M. Jones

Sierra Vista, Ariz., a prospering community of approximately 40,000, located 70 miles southeast of Tucson, is home to the U.S. Army's Fort Huachuca. The Army's Intelligence Center and School, the Army's 11th Signal Brigade (the Army's largest, worldwide military communications brigade), and several other high technology mission elements share Fort Huachuca's facilities.

The partnership between Sierra Vista and Fort Huachuca officials has allowed the city to make safety and capacity improvements at Libby Army Airfield/Sierra Vista Municipal Airport.

Initial Operations at Fort Huachuca's Libby Army Airfield

One of Fort Huachuca's major assets is Libby Army Airfield. Libby consists of three runways on more than 900 acres of military land. The current main runway is capable of accommodating all aircraft currently in the U.S. military's inventory. The airfield is surrounded by military reservation training property owned by the Army. The main 12,000-foot-long runway extends east-west over Army-owned property, which makes it ideal for training and aviation-related activities.

The city of Sierra Vista became an aviation partner with the Army in 1970, when the city negotiated a lease agreement with the Army for 29 acres of land adjacent to one of the two main runways. The city moved a single-wide mobile home to the site to serve as its terminal building. The city also "chip-sealed" a small apron area and taxiway to the then main 5,600-foot-long runway.

Since the property was being leased from the Army, it was not eligible for Federal Aviation Administration (FAA) or Arizona Department of Transportation (ADOT) grants.

Expansion with Major Army Cost Savings

In 1982, the city requested and the Army agreed to deed the initial 29 acres to the city through the FAA Airports & Airways Development Act of 1970. At the same time, the Army granted joint use of the Army's runways and taxiways to the city for use by civilian aircraft. Today, the Libby Army Airfield/Sierra Vista Municipal Airport is one of 18 joint-use airports in the United States and one of two in Arizona (Yuma/U.S. Marine Corps is the other).

In 1989, the Army deeded an additional 43 acres of land to the city under the Airports & Airways Development Act of 1982. This additional land acquisition has allowed the city to secure FAA and ADOT grants to develop the airside and landside infrastructure at the Sierra Vista Municipal Airport.

The partnership between the city and Army has allowed the city to improve navigation aids (navaids) and airside infrastructure on Libby Army Airfield. Cutbacks in military funding have greatly reduced the ability of the Army to accomplish needed airfield improvements at Libby. Recognizing this, Sierra Vista has "stepped up" and taken the lead in securing FAA

Thomas J. Hessler is mayor of the city of Sierra Vista, Ariz. He can be reached at thessler@ci.sierra-vista.az.us.

Arthur M. "Casey" Jones is a former member of the Sierra Vista City Council. He can be reached at luego@cox.net.

and ADOT grants to make safety and capacity improvements to Libby Army Airfield. Some of the partnering projects for which the city has secured grant funding and completed on Libby Army Airfield, in cooperation with the Army, include:

- A $250,000 automated weather observation system.
- A $1 million fiber optic cable between the city's taxiway lights and the Army's airfield lighting system, which lights all runways and taxiways via a radio remote controller when a pilot keys his radio microphone.
- Construction of a $2 million, 100-foot-wide, 1,400-foot-long, reinforced concrete taxiway from the Army's main runway to the large aircraft apron on the city's side of the airfield.
- The Army's three main runway approaches and taxiways have been re-striped and renumbered.
- The city has secured a $500,000 FAA grant to relocate the existing Army VOR navaid in order to make way for a new taxiway extension between two existing runways.
- The city has completed the design and is in the process of securing an FAA/ADOT grant for $3.5 million to extend an existing airfield taxiway approximately 1,000 feet between two existing runways. This will improve the safety of maneuvering aircraft and improve runway capacity.
- The city has secured an FAA/ADOT grant for $2.2 million to construct an eight-foot-high chain-link fence around the entire airfield (approximately 8 miles) to improve airfield security and reduce wildlife incursions. This project is expected to be completed in February 2005.
- The city secured FAA/ADOT funding to replace/upgrade the existing 1953 beacon on the airfield and completed the new installation in October 2003.

New Creative Partnership Step

The most recent partnering effort undertaken is the transfer of approximately 203 acres of Army property immediately adjacent to the 75 acres of Sierra Vista Municipal Airport property under the public benefit transfer option of Section 516 of the Airports & Airways Improvement Act of 1982. The city and Army are working together to complete the transfer that will allow the city to develop an Air Park/Aerospace Center to generate revenue and create jobs that will support aviation-related industries.

The land transfer deed is currently on hold by the Army pending resolution of the BRAC process in 2005.

Sierra Vista's close, cooperative working relationship with Fort Huachuca and Libby Army Airfield continues to result in airfield improvements that benefit all users of Sierra Vista Municipal Airport and Libby Army Airfield.

Chapter 21
CITY OF KILLEEN — JOINT AIRFIELD USE AT ROBERT GRAY ARMY AIRFIELD

By Don Christian

In June 2000, the Army and the city of Killeen, Texas, signed an agreement for a joint-use airport at Fort Hood's Robert Gray Army Airfield. This event marked a significant milestone in the joint-use development process, which began in 1997. When this facility opened Aug. 2, 2004, both the civilian and military communities began to benefit from this new, first-class airport.

Existing Killeen Airport Constraints

The existing Killeen Municipal Airport has significant runway length limitations that restrict the types of aircraft that serve the community. The runway is situated between two major highways, making it impratical to lengthen the runway. Surrounding residential development and the lack of land for terminal building expansion also jeopardized the future of air service to the community.

All three airlines serving the community announced plans to replace their turboprop aircraft with jets that cannot operate from the 5,500-foot long runway. These new aircraft need at least 7,000 feet to operate. The inability to convert to larger jet aircraft limits air service and has a negative impact on the military and civilian traveler.

Robert Gray AAF Offers a Solution

Fort Hood's nearby Robert Gray Army Airfield with its 10,000-foot-long runway provided a logical option for resolving the problem. The community began to discuss joint use with Fort Hood officials in 1997 but a major hurdle needed to be cleared prior to moving forward. A law that prevented joint use at Robert Gray Army Airfield had to be changed before the Army would enter into formal discussions. Elected city officials worked with their congressman to get the law repealed in 1998.

The FAA, the state of Texas and local governments spent $83 million to convert Robert Gray Army Airfield into a joint use airport, Killeen-Fort Hood Regional Airport. The new airport opened Aug. 2, 2004.

After the repeal, serious discussions began between the Army and the city. A team representing both parties was formed and an agreement outlining the joint use concept as well as a lease for 76 acres of land adjacent to the runway at Gray Army Airfield was developed. The parties negotiated a 50-year lease with an additional 50-year option. This long-term lease was important in that it allowed the city to conform to Federal Aviation Administration (FAA) grant requirements, thus opening the door for additional federal funds for capital improvement projects.

The city began working concurrently with the FAA for approval of a joint-use airport plan. The FAA agreed with the concept and selected the project for the Military Airport Program (MAP). This program provides funding for joint-use airports being developed at active military installations as well as airports impacted by the Base Realignment & Closure (BRAC) process.

Don Christian is director of aviation for the city of Killeen, Texas. He can be reached at dchristian@ci.killeen.tx.us.

The MAP also provides the flexibility to fund elements of an airport project not eligible under the normal FAA Airport Improvement Program (AIP), such as parking lots and fuel farms. Once selected for the program, an airport is eligible for up to $25 million over five years. MAP participation for the city of Killeen was critical and made project funding attainable.

Partners in the Joint-Use Process

As a major partner in the project, the FAA must be consulted every step of the way as a community pursues joint use. FAA representatives can provide valuable information on technical matters as well as tips on maximizing federal funds through the AIP grant process. In order to improve the chances of receiving federal funding, Killeen officials made several trips to the FAA regional office as well as FAA headquarters in Washington, D.C. Federal elected officials also provided key support and were briefed frequently on the project, which resulted in their support for funding legislation.

The city also worked with the Texas Department of Transportation (TxDot) for funds to construct new roads to the airport site. City, county and state elected officials petitioned the State Highway Commission for approval of the roadway plan and for project funding. In September 2000, the commission approved the project and allocated more than $12 million in road construction funds. The city provided rights-of-way and utilities in return for the state constructing more than six miles of new highway leading to the site.

The environmental approval process can be slow and cumbersome. In the case of the Killeen project, the environmental assessment had to be coordinated among the Army, FAA and state environmental agencies. Several issues had to be overcome, including dealing with a bird habitat area. Although there were no major environmental problems with the site, the process took approximately 18 months to complete. The best advice is to start the environmental approval process early in case there are surprises.

Joint City-Army Management

An important element of the Army and city joint-use agreement is the establishment of a Joint Management Board (JMB). The JMB consists of two representatives from Fort Hood and two representatives from the city of Killeen. This board meets regularly and will function as long as the joint-use facility is in operation. The JMB provides oversight and operational policy guidance on joint-use matters.

A major role of the board is to ensure that capital improvement projects are developed in accordance with Army and FAA directives and to resolve any conflicts that arise between the two standards. The Fort Hood garrison commander and Killeen city manager are senior members of the board and the chairmanship rotates annually between the two parties. This joint board is an important element of the project and ensures the two parties meet on a regular basis and actively participate in decision-making relating to the airfield.

Army-City Benefits from the Joint Use Airport Project

The overall cost of the project is approximately $83 million with the FAA contributing nearly $50 million. Other funding sources are: the Texas Department of Transportation, airport passenger facility charges, Bell County and city of Killeen. Without the cooperative funding effort, this project most likely would not have gotten off the ground.

Another important element of the joint-use agreement and lease is the use of in-kind payment of services as opposed to cash payments. For example, in exchange for land use, the city of Killeen will maintain the runway, lighting and landscaping. The city also will coordinate with the FAA for funding of airport improvement projects that will improve the overall capability of the airfield, benefiting the Army and the city.

Another important provision of the agreement calls for the Army to provide aircraft rescue and fire fighting services for civilian aircraft in return for the city providing structural fire fighting services in selected military housing areas. Overall this turns out to be a win-win arrangement for both parties. The in-kind service agreement saves resources and funds for both parties.

Looking to the future was an important consideration for those developing the joint-use agreement. The initial land requirement was for 76 acres but the city negotiated with the Army for an additional 100 acres for future development. This extra land could be used for parking lot expansion, a new air cargo facility or other aviation-related uses that will benefit both parties. The highways also have been designed for future expansion. For example, an additional right-of-way was acquired to accommodate extra traffic lanes and to accommodate the addition of overpasses.

Broad Public Support

Regional political support was very important in getting the project off the ground and to keep it moving along. The city of Killeen established a blue ribbon committee to bring area community leaders together, periodically brief them on the project's benefits, and gain their support and participation. This process was a success and the city obtained more than 30 resolutions of support from city governments, chambers of commerce and other regional organizations. The importance of regional cooperation in making a project of this type work cannot be overemphasized.

By the time the facility opens for airline service in mid-2004, the planning and construction process will have been under way for approximately seven years. It takes time to negotiate and get the parties to approve a joint-use lease and agreement, to complete the required environmental studies, to obtain FAA approval and funding for airport improvements, and to get approval and funding for road construction.

Despite the long project timeline, the planning, funding and construction phases moved along without major difficulties. Assembly of a first-class planning and engineering team is critical to keeping the project moving forward.

This project is a model example of excellent cooperation between government agencies. The civilian community obtained a first-class airport and improved airline service. The military received an improved airport capable of better serving its defense needs. Both parties benefit by sharing the costs of capital improvements and routine maintenance. This truly is a win-win situation for the city of Killeen and Fort Hood.

PART V: UTILITY SERVICES

Chapter 22

ADVANCED WASTEWATER TREATMENT PLANT FOR TYNDALL AFB — BAY COUNTY, FLA.

By Carol Atkinson

In early 1994, Bay County, Fla., was facing a serious concern over its existing wastewater treatment facilities. There was not enough room at its current location to handle anticipated future capacity needs. Given the dynamic growth in the area surrounding Panama City over the next 15-20 years, the county's current facility would not be able to satisfy the area's treatment needs. Limited real estate availability around the existing county facility necessitated additional land for expansion elsewhere.

Solution: Cooperation with Tyndall AFB

Bay County found a solution to its previously constrained real estate problem at Tyndall Air Force Base. The base had a 40-acre site where a new advanced wastewater treatment (AWT) facility could be built, serving both the needs of the base and the future needs of the county.

The area municipalities would be the joint owners of the AWT plant and would charge users (including Tyndall AFB) for their use of the plant's services. Tyndall AFB would benefit as a customer of the treatment plant, and also use the AWT effluent to water the base golf course.

Project Timeline

The development of a joint AWT plan began in 1994, when three cities, a nearby town and the county initiated action to expand the existing Cherry Street plant. The limited land area available at the existing plant would have permitted expansion to accommodate growth for only 10-15 years.

At the time, Tyndall AFB itself requested a capacity allocation from the proposed new AWT plant expansion. In order to incorporate the Air Force's needs within the new plant, the Air Force was asked to out-lease a 40-acre site on Tyndall AFB for a totally new AWT plant, where the base's capacity allocation could be honored. The Air Force Education Training Command endorsed the long-term lease approach, and the lease document was approved by the Air Force under the provisions of 10 USC 2667 in September 1996. The lease included an easement for the pipelines carrying the treated reuse water to the Tyndall AFB golf course.

An Inter-local Agreement for the AWT plant on Tyndall AFB's Military Point was ratified by the municipalities in October 1996. Bay County was designated as the operator for the new facility. The contract for the plant engineering and design work was awarded in March 1997. Bay County and the Air Force executed a wastewater treatment contract and reuse water agreement in November 1997.

The $20.8 million plant construction contract for the 7-million-gallons-per-day plant was signed in December 1997. Tyndall's wastewater flow was diverted to the new plant in July 1999, and the final major construction tasks were completed in October 1999. The plant began sending reuse effluent to the base golf course in March 2000.

Benefits from the Joint AWT Facility

There have been innumerable benefits from joint cooperation on the new AWT plant. First, Bay County was able to expand its treatment facilities on the 40-acre Tyndall AFB site in time to meet its growth and advanced wastewater treatment needs.

Tyndall AFB was able to put unused land to use and thereby generate approximately $20,000 in revenue annually through its lease with Bay County. The base also was able to close its existing treatment plant and become a customer of a more modern AWT facility.

Carol Atkinson, vice president of G.A.C. Contractors, served on the Bay County Board of Commissioners during the expansion of the Advanced Wastewater Treatment Plant and presently spends her "not-so-spare" time volunteering with the Bay Defense Alliance, which serves to protect and enhance the missions of the Bay County military installations, including Tyndall AFB and the Navy Coastal Systems Station. She can be reached at Atkinson@gaccontractors.com.

Finally, the base golf course requires an average of 530,000 gallons of water per day. Prior to the new AWT plant, irrigation water for the golf course came from the Floridian Aquifer, which was slowly being drawn down. Now, the same amount of water is available from reused water rather than a natural resource. From a financial and a water quality perspective, Bay County, the affected municipalities and Tyndall Air Force Base all have benefited from the new joint, timely AWT treatment plant development.

Chapter 23

JEA LEAST-COST UTILITY SERVICES FOR JACKSONVILLE-AREA MILITARY BASES

By Judi Revels

JEA (previously known as the Jacksonville Electric Authority) is the eight largest municipal utility in the United States, providing electric, water and wastewater services to 600,000 accounts in northeast Florida. One of its largest customers is the Navy, with two active bases (Naval Air Station Jacksonville and Naval Station Mayport) in its service territory. JEA also provides utility services to the Blount Island Marine Corps terminal in Jacksonville. Another former base, Cecil Field, is currently undergoing privatization.

JEA has partnered with the Navy for electric, water, wastewater and other services in the JEA service territory. This partnership has several components that have resulted in significant savings to the Navy in the cost for these services.

Electric Services

The Navy receives the lowest available electric service rate under the two riders that are available to accounts with 25,000 kilowatt (KW) demand per month. The "GSXLD-10," a 10-year service agreement, allows the Navy a 10 percent cost savings on electric consumption and demand charges for all their locations in the JEA service territory. This discount is combined with the multiple account rider that provides coincidental peak reduction.

In FY 2002, the savings on electric services from these two riders totaled more than $3.3 million for the Jacksonville bases. The Navy's FY 2003 competitive analysis of electric rates in the southeast region of the country showed that JEA provides electric service to the Navy at the lowest price for electric service in the region, $36.95 per megawatt hour.

Through a regional base operating services (RBOS) agreement, JEA is the subcontractor responsible for base operations and maintenance at the electrical, water and waste water systems at NAS Jacksonville and NS Mayport. Through this agreement, the Navy benefits by the reduction in electric and water systems permanent personnel and in the ongoing maintenance costs of these systems that are not part of their core business.

JEA crews are dispatched as needed for outages. Substation and feeder maintenance is scheduled and upgrades are performed as a part of normal JEA maintenance. This has resulted in a reduction in the number of outages and their duration. JEA's response time has allowed the Navy to decrease downtime due to an outage. In addition, JEA crews have worked with lines "hot" in order to make repairs and further reduce outage downtime. One former commanding officer of the Naval Aviation Depot (NADEP) at NAS Jacksonville described the relationship with JEA as "efficiency gained through partnership."

JEA also has a basic operating agreement (BOA) contract with the Navy through which JEA performs energy audits of Navy facilities. The audit results are submitted to the Navy in the form of a proposal for energy conservation projects. These projects are awarded based on the Navy's criteria for payback. Over the last few years, JEA has completed five such projects for a total of $3 million at NAS Jacksonville and NS Mayport. These projects have provided the Navy with additional savings from energy related improvements at their facilities. Currently, JEA and the Navy are engaged in a major initiative to improve and upgrade the NADEP facility at NAS Jacksonville. JEA has more than $30 million committed to this process. The utility has hired a consultant, ETSI, which performed a similar energy optimization at the NADEP in North Island, Calif.

JEA installed a new 4,160-kilovolt feeder to the Mayport base in June 2003. This feeder gives the base the ability to carry the electrical load that would accommodate a berthing nuclear carrier (CVN). The ability to

Judi Revels is the JEA manager for major accounts in Jacksonville, Fla. She can be reached at reveja@jea.com.

support the future homeporting of a CVN at Mayport is an important capability, especially after the planned departure of the John F. Kennedy.

Water Services

At NAS Jacksonville, JEA has agreed to sell bulk water and in Phase I the water treatment plant at the base has been interconnected (May 2003) with the JEA water system, allowing the two remaining base water plants to become standby facilities.

A second phase to this project has been proposed to loop the water system on NAS Jacksonville. The Navy realizes several benefits from the Phase I connection: (1) substation utilities cost savings; (2) increased water production supply reliability; and (3) enhanced fire protection capability for future needs.

The Greater Jacksonville Community

The community also benefits in several ways. First, the community will see enhanced water quality of the Ortega River due to phasing out the wastewater treatment plants. Second, JEA will have the ability to supplement Jacksonville's water production capability. And third, the JEA water system reliability will increase with the connection of the north and south water grids, which are currently separate systems.

Chapter 24

UTILITY PRIVATIZATION AT A REALIGNED BASE: THE CASE FOR THE RED RIVER ARMY DEPOT

By Rich Hall & Duane Lavery

In the 1990s, when the Department of Defense was directing and encouraging the privatization of utility systems at military installations, the Red River Army Depot (RRAD) in Bowie County, Texas, was facing the daunting task of updating its wet systems with capital dollars that did not exist.

After the realignment of the depot in the 1995 BRAC round, the depot and the Red River Redevelopment Authority (RRRA) began negotiations for the RRRA to take over the utility systems and bring them up to current standards. It was agreed the transfer of the systems would be part of the economic development conveyance (EDC) process between the two parties.

As a result of the realignment, 765 acres of surplus property were transferred to the RRRA via a no-cost EDC. But because the Army maintained a significant mission and footprint at the depot, the utilities (water, wastewater, industrial wastewater and electric) initially remained under depot ownership and control.

During the redevelopment planning process and EDC negotiations, it became increasingly apparent to the authority that it was imperative to control the servicing of the utility systems ourselves for a variety of reasons. During this same time, the Army issued a blanket notice to all installations to privatize all their utility systems. In consultation with depot and Army representatives, the RRRA decided to make a proposal to assume ownership and operation of the systems through an amended EDC and separately negotiate service contracts with the depot to provide utility services over the long term.

The authority decided early in the process that it did not want to be in the utilities operating business directly and adopted a strategy to either flip the systems to a capable provider or operate the systems with the help of a private contractor.

RRRA issued a request for proposals that called for potential owners and operators to state their qualifications and outline the major points of how they would operate, upgrade and provide reliable quality service both to the depot and to redevelopment authority tenants over the long haul.

After reviewing the proposals, the authority selected AEP-SWEPCO for the electric system and the URS Corp. for the wet utility systems. The electric system would ultimately come under the ownership of AEP-SWEPCO and the wet systems would be owned by the authority.

At that point, negotiations began between the authority and the chosen providers. And after a period of due diligence and business planning on the part of the providers, negotiations with the depot commenced.

Negotiations took about three years. Issues such as amount of staff, service response and capital improvement schedules were debated until a deal was reached. The final draft included a 24-year contract for the electric utilities and a 20-year contract for the wet systems. The wet systems contract also has two 10-year extensions.

After a draft agreement was completed, the approval process with the Army was facilitated with the cooperation of the RRAD, RRRA and the contractors.

At the conclusion, the electric distribution system on the depot was transferred to the authority and then immediately to AEP-SWEPCO. <u>Annual savings to the depot amount to about 40 percent</u>, assuming the depot had invested in the same level of maintenance and capital improvement as agreed to by AEP-SWEPCO.

Rich Hall is the former executive director of the Red River Redevelopment Authority (RRRA) and continues to work for the RRRA overseeing the utility contracts with the Army. He can be reached at richhall@txk.net.

Duane Lavery, CEcD, is the current executive director of the Red River Redevelopment Authority. He can be reached at dlavery@txk.net.

On the water utilities side, the authority retained ownership of the three systems and contracted with URS Corp. as the operator/administrator of the system. The Army will save about 10 percent of its projected costs and gain a $25 million capital program that will be implemented over the life of the 20-year renewable contract.

PART VI: LOCAL-STATE HOUSING INITIATIVES

Chapter 25
COLORADO SPRINGS RESPONDS TO MILITARY HOUSING NEEDS

By Richard M. Sullivan

Ongoing growth of the military space program and the new issues of homeland defense have continued to place enormous pressure on the limited on-base housing resources (491 family dwellings) at Peterson Air Force Base, Colo. The problem is exacerbated by the demands of Schriever AFB — located just eight miles to the east — which has no support system infrastructure and relies on Peterson AFB for family support amenities.

Add to this picture a very tight local housing market, and the result is great difficulty for enlisted households to secure good quality, affordable housing in the Colorado Springs area. This is not a unique circumstance, as many military bases spanning the services and the country have similar problems.

City Response: New Approach to Meeting the Need

In 1997, the Department of Defense Housing Revitalization & Support Office (HRSO) provided an opportunity for new housing at the Peterson Complex (which includes Schriever AFB and Cheyenne Mountain Air Station). Central to these scenarios was the need to convey existing housing inventory to a private sector developer in order to provide an equity and cash-flow base that would support the capital development costs of new inventory.

In addition, the HRSO process was time consuming and complex. But in an era of no DOD dollars for new construction, it appeared to be the only avenue available to the Peterson AFB decision-makers. That is, until the Colorado Springs Housing Authority was introduced to the problem.

The Colorado Springs Housing Authority, like more than 3,300 similar entities across the country, is an independent unit of local government whose principal mission is providing affordable housing to lower income households in the community.

The housing authority was introduced to the problem by city staffers who meet with Peterson Complex leadership on a regular basis to brainstorm shared problems. Affordable housing was on the agenda at a meeting to which the housing authority's executive director was invited.

While the military population in Colorado Springs generally does not participate in the housing authority's rental assistance programs, the enlisted grades are within the upper limits of the annual income ranges with which the agency works. The Colorado Springs Housing Authority has a long history of creating partnerships and solving difficult problems, so the Air Force housing problem seemed like one that would be a good challenge and fit the agency's mission.

Common Set of Challenges

In 1998, several iterations of a "do-able" project were produced for discussion. They included new construction on-base, acquisition and rehabilitation of an existing multi-family development near Peterson AFB, and new construction off-base. Each alternative had strengths and weaknesses, but a common set of circumstances was present through all of them:

- The military had no capital to invest in the project;
- Real estate development is risky;
- The housing authority is an experienced and willing real estate developer/manager; and
- The housing authority could bring below-market borrowing capacity and some equity to the project.

In early 1999, the housing authority located a 4-acre site in the developing Nor'wood subdivision in northeastern Colorado Springs. The site proved to be agreeable to all involved and the authority set out to accomplish the land development prerequisites of the city and

Richard M. Sullivan is executive director of the Colorado Springs Housing Authority, which provides affordable housing for 4,600 households using a variety of funding and financing mechanisms. He can be reached at rms@csha.us.

design a project that would be affordable to the target population of Peterson's enlisted households and hold its own in a competitive marketplace.

In that regard, the housing authority development budget was going to require $4.5 million to $5 million in borrowing and about $1.5 million in equity to cover the identified development costs for what was now an 80-unit, multi-family development known as Creekside at Nor'wood. Tax-exempt bonds were a possibility, but were quickly discarded because of the costs of issuance and the relative small size of the issue. Tax credits under Section 42 of the Internal Revenue Code coupled with a private activity bond (PAB) also were considered. The city actually conveyed PAB capacity to the housing authority for the Creekside project, but tax credits with a tax-exempt bond again were too heavy on issuance costs and introduced private tax credit investors into a project that already was heavy on decision-makers.

Ultimately, the housing authority settled on a "bank qualified" loan from U.S. Bank, N.A. The costs to close the U.S. Bank loan to the housing authority were less than $5,000, and most of the cost was for a title insurance policy.

Bank qualified loans are available to public body issuers through financial institutions that accept deposits from the public and are regulated by federal or state government. The federal regulations governing these transactions are found in Section 265 of the Internal Revenue Code. An important caveat to "265 loans" is that the issuer must be a "qualified small issuer;" i.e. issue less than $10 million in tax-exempt obligations during a calendar year.

In this instance, the authority met the debt limit burden and the loan was closed. It provided the authority with $4.8 million for Creekside at Nor'wood with a 20-year term and amortization. The interest rate is 6.45 percent and requires a 1.20-to-1 debt service coverage ratio, replacement reserves of $25 per unit per month, and the right of bank officials to inspect the property and review the financial statements of the property and the housing authority on a periodic basis. In October 2003, the authority refinanced the property, resulting in an interest rate reduction to about 4.8 percent. Banks see these loans as attractive because they are stable loans that would receive a high rating if rated, and the bank receives accounting and other business considerations including Community Reinvestment Act points with federal regulators.

The Creekside at Nor'wood Apartments

Groundbreaking occurred in the summer of 2000 on the Creekside at Nor'wood apartments. Construction was completed in October 2001. The result of this partnership was an 80-unit development consisting of 28 one-bedroom (778 square feet), 40 two-bedroom (1,028 square feet), and 12 three-bedroom (1,290 square feet) units. Each dwelling includes all kitchen equipment plus dishwashers and microwave ovens, laundry with washer and dryer, ample closets and storage, air conditioning, balcony or patio space, and large bathrooms.

The buildings are sided with stucco and stone, with clay tile roofs. A swimming pool and hot tub, a tot lot and direct access to the city's hiker/biker trail system are available to the residents. A clubhouse is available on-site with a business center for residents and family programs through the YMCA. Monthly rents are set on three tiers for each unit size:

1 bedroom	2 bedroom	3 bedroom
$475	$575	$690
625	795	990
710 (market)	890 (market)	1,100 (market)

The lowest rents are available on 32 of the units and equal 30 percent of income for rent on 50 percent of the median income for the county in 2000. The Colorado Springs rental market has softened over the past year, with a current apartment vacancy rate of about 10 percent. But, the Creekside at Nor'wood project occupancy rate has remained high. The project is now 98 percent leased and 37 of the families in occupancy are from the Peterson Complex.

Nationwide Benefits

DOD has no commitment to Creekside, other than to refer eligible households from its waiting list and provide direct deposit of rent after three months of occupancy — a great solution for providing first-class, affordable housing for Air Force households in Colorado Springs.

It also is important to note that this quality family housing for enlisted families was provided without direct cost to DOD. This is an important public service offered by the city to demonstrate its commitment to the military missions at Peterson AFB.

In reflection, the methodology used by the Colorado Springs Housing Authority to bring Creekside at Nor'wood to the marketplace for enlisted military households is one that can be duplicated anywhere there is a willing public entity developer/owner. Housing authorities are an especially good choice because they usually have expertise in real estate development and property management, and they exist almost everywhere. Housing authorities also can be willing partners between the military and the community.

Chapter 26
VIRGINIA'S NAVY HOUSING INITIATIVE

By Michele Watson

In the fall of 1997, the Navy Housing Office in Norfolk contacted the Virginia Housing Development Authority (VHDA), the housing finance agency for the state, to look into partnership possibilities due to the reassignment of 5,000-7,500 Naval personnel to the Tidewater area by 2000. This, coupled with the new Navy policy of "homeporting," would significantly impact the availability of military and non-military housing in the Tidewater market and had made the issue of housing a priority for the Navy.

Responding to the Navy Housing Crisis

The new Navy housing demand engaged the interest of Congressmen Owen Pickett and Norman Sisisky and other members of the state congressional delegation. At their behest, VHDA staff members met immediately with representatives of the Department of Defense and with Steve Gibson, director of the Navy Housing Office in Norfolk, to develop possible housing assistance programs that could be provided by VHDA and also serve as a solution to Navy housing concerns.

As a housing finance agency, VHDA does not use state or federal tax dollars to fund its programs. Instead, the agency relies upon the sale of tax-exempt and taxable bonds to finance first mortgages within the state. The bond financing provides a significant advantage to the borrower, since the interest rate is usually 0.75 percent to 1 percent below conventional mortgage rates. It also provides significant flexibilities in designing products and programs to assist in the financing of these first mortgages and target markets.

VHDA staff met several times with representatives of Adm. Timothy Ziemer's staff at the Norfolk Navy Base to discuss the availability of VHDA resources in assisting the Navy with its housing-related issues, and ultimately designed a proposal using its tax-exempt and taxable bonding capacity. Based upon these meetings, VHDA and the Navy drafted a memorandum of understanding encompassing all of the single-family homeownership objectives.

VHDA Navy Programs Begin with Client Education

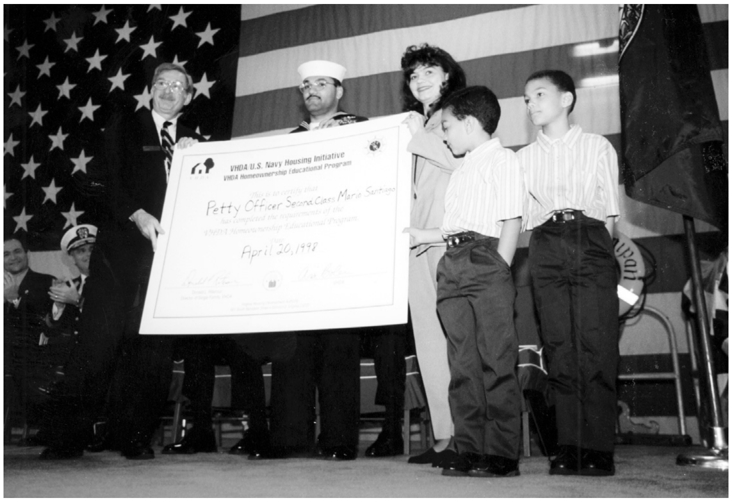
As the first component in meeting these objectives, VHDA's single-family personnel agreed to provide homeownership education training courses for Navy personnel on-site at the Norfolk Naval Base. The course was to be generic and not promote any one program or mortgage loan product. The focus was to educate service members in the basics of homeownership and allow them to make an informed decision as to whether it was in their best interest for them to rent or purchase a home.

Responsibilities of VHDA included scheduling and organizing the course work material, and teaching if necessary. In addition, VHDA arranged for all appropriate third-party speakers at the homeownership education courses. These speakers (such as mortgage lenders, attorneys, home inspectors and real estate agents) would be drawn from the local residential real estate community. The course was modeled on VHDA's standard instructional program that has been delivered to Virginians since 1993.

The homeownership education course is designed to acquaint participants with the home buying process, including credit evaluation methods budgeting, how to finance a home, working with realtors and mortgage lenders, the home inspection and closing process, predatory lending practices, and basic home maintenance.

VHDA would determine the appropriate number of courses to be taught, based upon demand by Navy/Marine Corps personnel. The advantage to the service member was that the course would be taught during normal business hours and each course would accommodate 30-40 individuals. VHDA agreed to hold as many classes as were needed to accommodate all personnel responding to the Navy's notice of availability of the course. VHDA also agreed to provide all necessary manuals and course work materials.

Michele Watson is the director of the Virginia Housing Development Authority's Single-Family Development Program, responsible for all loan products, programs, origination functions and relationships with lenders and Realtors. She has been with the authority for 29 years, promoting housing for eligible Virginians. She can be reached at michele.watson@vhda.com.



At the April 1998 kickoff event for the Virginia Housing Development Authority-U.S. Navy Housing Initiative, VHDA Executive Director John Ritchie awards the family of Petty Officer 2nd Class Mario Santiago a low-interest-rate loan. The event was held in Norfolk aboard the USS Saipan.

The Navy assumed responsibility for publicizing the course with print ads and advertisements in military publications promoting the homeownership education training, by sending messages through the Navy's e-mail message service, and registering course participants. The Navy also agreed to provide information to service members on the VHDA loan products available through the various special allocations of funds. In addition, Navy housing staff also agreed to provide suitable meeting rooms or conference space on base to conduct the course.

Mortgage Loan Set-Aside Program

The second component of the agreement was that VHDA would make available all of its single-family programs available to Navy/Marine Corps personnel and in addition, VHDA would allocate an additional $25 million set-aside for mortgage loans specifically to Navy/Marine Corps personnel. Of that amount, $20 million would be from the authority's new taxable bond program and $5 million would be a special allocation of tax-exempt bond proceeds, with an interest rate of approximately 5 percent in an interest rate environment of 7.5-8 percent. The $5 million/5 percent pool of funds was to target enlisted men with pay grades of E-5 and below. An additional $50 million each year for the next five years was to be set aside from the pool of VHDA resources for a total of $250 million earmarked for Navy/Marine Corps families throughout Virginia.

In addition to the standard loan products and programs, VHDA designed loan products specifically for the Navy/Marine Corps population. Shortly after the program's inauguration, the Navy contacted VHDA about airmen and support crew arriving at Naval Air Station Oceana in Virginia Beach from the former Cecil Field in Jacksonville, Fla. The concern was that many of the men and women being transferred had used their VA eligibility, and due to the soft market in Jacksonville, would not be able to sell their homes and reuse their VA loan benefits in Virginia to purchase a home. Based upon the market conditions, these personnel would need down payment and closing costs to purchase a home in Virginia.

Representatives of VHDA accompanied the Virginia Tidewater Realtors and Mortgage Bankers on a trip to Cecil Field and conducted homeownership education classes at the base. After returning to Virginia, VHDA designed and promoted a new loan program created specifically for Navy/Marine Corps homebuyers. The program was not restricted to first-time homebuyers and provided a 100 percent, no down-payment mortgage, similar to what these buyers would have received if they had used their VA eligibility. The loan program, which was designed from VHDA's taxable book of business, provided a lower mortgage payment to the borrower, since VHDA waived the mortgage insurance requirement and self-insured the loan. The lack of a mortgage insurance premium significantly reduced the PITI (principal, interest, taxes and insurance) charged to the borrower. Since the program was from the taxable pool, VHDA also was able to increase the income and loan limits to accommodate the airmen and support crews.

Immediate Navy-Marine Family Response

The homeownership education phase of the initiative began March 24, 1998. As of Jan. 31, 2004, 4,275 Navy and Marine Corps personnel have attended about 200 classes. Since the first allocation of funds was released April 21, 1998, more than 2,221 Navy and Marine Corps families have reserved funds or closed loans for a total of $216.3 million. Unfortunately, it is not possible to track military personnel who do not use this program. Since all of the VHDA programs are available to Virginia residents, it possible one of our other programs might better suit these military families. In addition, VHDA also provides homeownership education, on an as needed basis, throughout the state to all other branches of the military. To date, classes have been taught at Langley Air Force Base, Fort Eustis, Fort Lee, Fort Meyer, Fort Belvoir, Marine Corps Base Quantico, and Navy bases outside of the Tidewater area, such as Anacostia in Washington, D.C, Naval Air

Station Patuxent River in Maryland, Wallops Island on the Eastern Shore of Virginia, and Sugar Grove, W.Va.

With the success of the single-family program, VHDA hoped to replicate its accomplishment by assisting the military on the multi-family side of its housing program. VHDA's multi-family program is one of the largest and most successful in the country. VHDA has held numerous discussions with the Army, Navy and Air Force in an attempt to help with the financing of privatized military housing. To date, its efforts have been unsuccessful. However, the agency stands ready to lend on a land lease property using taxable bond financing if it is beneficial to the armed services.

In an effort to promote similar partnerships throughout the country, VHDA and Steve Gibson gave a presentation at the 1999 spring conference of the National Council of State Housing Authorities. At this time, there is little information available about other states that have adopted similar partnerships, but several housing finance agencies have contacted Virginia in an effort to provide support for military families in their states.

The important message here is that state housing finance agencies are well organized to provide housing assistance to military families as an element of their statewide housing programs.

Chapter 27
RIVER'S EDGE – MILITARY FAMILY HOUSING UNDER LOCAL MANAGEMENT

By Robert Wydra

The Department of Defense faces a huge military family housing deficit nationwide, even with recent DOD progress under the 1996 housing privatization authorities. Yet, there is one additional source for retaining quality military family housing in major metropolitan areas. Continued operation of family housing affected by base closures under local auspices (rather than the automatic sale of the housing on the open market) can been a useful tool in helping military families.

The reuse of 152 units of military family housing at the former C. Melvin Price Support Center (CMPSC) near Granite City, Ill., represents a promising example where the Tri-City Regional Port District was willing to continue managing the military housing under local auspices.

The Price Center had been announced for closure in 1999 as a non-BRAC closure action. The Tri-City Regional Port District was the principal applicant for the 845-acre center as a public port facility, located on the Mississippi River with a clear view of the St. Louis Arch. The family housing had supported the Army Materiel Command aviation and missile activities in the St. Louis metro area.

New Role for the Tri-City Regional Port District

The Tri-City Regional Port District, located in southwestern Madison County, Ill., had been the economic engine for three surrounding small cities. But the port district had limited experience in managing residential properties in general and no experience at all in managing military family housing. Undertaking this responsibility as an element of acquisition of the Price Center upon its closure was a major financial and management challenge for the port district.

The Army and the U.S. General Services Administration urged that the family housing be sold at public auction. But local land use zoning for the entire Price Center called for heavy industrial uses, when no longer needed by the military. The local zoning ordinance would allow the continued use of the housing as a "non-conforming use." But, this non-conforming use feature could then lapse entirely if the units were to remain vacant for six months or longer.

The federal disposal process generally takes far longer than six months, and the local housing market in Granite City had been depressed for some time. It was important, therefore, to retain the existing military families as well as new military families assigned to the St. Louis area in the Price Center military housing enclave, managed locally under the auspices of the port district.

Price Center Property Disposal Solution

The FY 2001 National Defense Authorization Act (P.L. 106-398), signed into law by President Clinton on Oct. 30, 2000, outlined the basic requirements that guided the formal transfer of the Price Center from the Army to the Tri-City Port District.

This authorizing legislation and a subsequent interim lease between the port district and U. S. Army Aviation and Missile Command (AMCOM) required that the port district make current housing units available to military personnel on a priority basis in accordance with military assignment standards based upon grade/rank and family composition. The rent that the port district charges to a military family cannot exceed the military members' basic allowance for housing (BAH) and includes the cost of utilities, refuse collection, maintenance and repairs.

The port district aggressively pursued the development of an interim use lease after passage of the authorizing legislation, although the Army was inclined to focus efforts on property title transfer. The interim lease permitted the port district, however, to take on all fiscal

---

Robert Wydra is executive director of the Tri-City Regional Port District, joining the port's staff in 1982. Prior to 1982, he was director of planning for a seven-county regional planning commission for 14 years. He spent two years doing economic development work in India and Israel prior to his work with the port district. This chapter is adapted in part from the fall 2003 edition of Economic Development Journal. He can be reached at rwydra@tricityport.com.

and management responsibilities of the residential units sooner.

The Price Center housing stock contained 152 sound units (77 four-bedroom, 44 three-bedroom and 31 two-bedroom units). The port district's motivation for an interim lease was to begin its management with BAH revenues in place from as many occupied residential units as possible. The Army had stopped replacing families in vacant units when military personnel rotated out for other assignments a year earlier and many Price Center housing units already were vacant. Maintenance problems were apparent in the vacant units.

Military Families are Good Tenants

On April 1, 2001, the port district began managing the residential complex and adjoining acreage through an interim use lease. Thirty-nine military families remained in the units as of that date. As of Oct. 1, 2003, 130 units were occupied by military families. Since it took over operation, the port district has renovated 133 units with 19 units yet to be rehabilitated. Funds are available and the remaining units will be renovated within the next six months.

An array of single family, duplexes and townhouse units are available. The demand for these housing units by military personnel assigned to the St. Louis area is high because of the central location of the housing complex, highway accessibility and comfortable surroundings.

Units are on large lots with street lighting, sidewalks, curbs, pavilions, bus shelters, water service, sanitary sewer service and natural gas heating. Each unit is equipped with new appliances and has central air. Wall-to-wall carpeting and hardwood floors predominate. Many units have attached garages.

Residents also have use of a new, modern childcare center that provides quality services conveniently located to all housing units. Mixed in with the housing are green spaces and landscaping, mature trees, playgrounds, and people-friendly street patterns. Many of the units also are adjacent to the River's Edge Golf Club and a new YMCA currently under construction, which will include a swimming pool and fitness center.

The port district has employed the Army's assistance housing manager of 10-plus years to lead its housing management effort. The port district is committed to maintaining a quality environment for each resident. A talented, full-time housing maintenance and repair staff also is available to ensure that the units and adjoining property are properly maintained. The port district also provides 24/7 security.

Family Housing as a Local-Military "Win-Win-Win" Solution

The continuation of military family housing operations by the port district is a win-win-win situation. First, military families continue to enjoy the benefits of the residential environment at River's Edge completely financed from their existing BAH rates. Second, the Army no longer is responsible for the costs of Price Center housing management, utilities, maintenance and repairs. In this regard, the port district has expended about $1.2 million in managing the family housing units since April 1, 2001. This includes all repairs, renovations, salaries and utility costs.

Third, the port district benefits economically because BAH rates are reasonable, occupancy rates are high, rent payments almost always are on time and military families make excellent tenants.

In the event of any future closure action, it would be useful for DOD to determine whether there is still a demand for military family housing in the surrounding metro area. There may even be a strong community rationale for continuing the military housing under local auspices and at current BAH rates.

It also is important to investigate local land use zoning, and to avoid any presumption that public sale always results in the highest return to the federal government. Sometimes, joint solutions with the community can result in long-term benefits to DOD and the community in the family housing arena.

POSTSCRIPT

John Lynch

One of the great satisfactions in serving as NAID/ADC's volunteer "light editor" for Profiles in Privatization & Facility Cost Reduction was the opportunity to work with 33 colleague authors who compiled the 27 individual and varied chapters. It was important that each of the authors be able to tell his/her own story in their own words – in all cases from the perspective of a personally involved practitioner.

The response was immensely satisfying. The drafts came in on time, well-written, and needing only an occasional suggestion. In fact, the role of this "light editor" was merely one of allowing our Profiles authors the opportunity to describe creative community solutions for defense bases and missions at the local level. I am indebted to the following chapter authors:

- Carol Atkinson
- Michael M. Brown
- Tom Chandler
- Don Christian
- Michael G. Cooper
- Daniel P. Cosgrove
- Dr. John Deegan
- Billy Edwards
- Jane Fitzgerald
- Mark W. Frye
- Kurt Haglund
- Rich Hall
- Thomas J. Hessler
- Wally Horton
- Arthur M. "Casey" Jones
- Alan D. King
- David Knisely
- Tony Kushnir
- Duane Lavery
- Fred Meurer
- Rick Platt
- Thomas J. Ratcliffe, Jr
- Joe Renaud
- Judi Revels
- Jacqueline Rogers
- Michael Sargent
- Ron Selfors
- Michael Simmons
- Richard M. Sullivan
- Michele Watson
- Cathy Williams
- David G. Woodbury
- Robert Wydra

Special thanks also is due to my colleague NAID/ADC staff editors: Andrew Bunnell, who guided the initial *Profiles* edition in August 2002, with its new *infoseries* format, and more recently Dan Cohen and Ben Nyhan. I am deeply indebted to these outstanding and conscientious NAID/ADC staff members.

Other Useful Publications Available from NAID/ADC…

Acquiring Base Closure Property
By John Lynch, George Schlossberg and William Bopf (January 1995)

Case Studies in Base Conversion
Edited By John E. Lynch (June 2002)

The Community Base Reuse Planning Process: A Layman's Guide
Edited By John E. Lynch (February 2004)

Community Organization for Military Base Reuse
By John Lynch, Lynn Kusy and Patrick O'Brien (September 1994)

Contengency Planning for Base Closure Recovery
By John E. Lynch and James L. Meyer (May 1995)

Family Housing: A Development Asset or Base Reuse Liability?
By Brad Arvin, Jane Blackstone, Lynn Boese, John Lynch, Carl Sachs and Eugene Schneider (June 1995)

Keeping the Lights On: The Cooperative Caretaker Agreement
By Thomas A. Chatel (August 1996)

No-Cost Economic Development Conveyances
By John Lynch and George R. Schlossberg (December 2001)

New Job Creation Through Interim Use Leases
By Brad Arvin, Ray Boudreaux, John E. Lynch and George R. Schlossberg (August 1994)

Property Conveyance at Closing Military Bases: The Pre-BRAC and BRAC Experiences
By Dan Schoenholz (November 1997)

Retaining Personal Property & Equipment: A Practical Community Implementation Guide
By Christine Shingleton, Kay Miller, Richard Martin, John E. Lynch and Charles Finley (January 1996)

For more information, or to order a publication, go online to www.defensecommunities.org

NAID AN ASSOCIATION OF DEFENSE COMMUNITIES
734 15th Street, NW, Suite 900
Washington, DC 20005
www.defensecommunities.org