

## Information Paper

**SUBJECT:** Residential Communities Initiative (RCI)

**PURPOSE:** Provide an overview of Army's RCI family housing privatization program

**KEY POINTS:**

RCI is a critical component of the Army's effort to eliminate inadequate housing through public-private partnerships and award contracts to eliminate inadequate family housing in the U.S.

Quality/affordable housing is a key issue for the well-being of the warfighter and a significant contributor to the Army's recruitment, readiness, and retention.

Privatization allows Army to leverage funds and assets to obtain private sector capital/expertise to operate, sustain, renovate and construct housing over the long term.

RCI includes 44 locations, with 85,711 homes - over 98% of the U.S. Army family housing owned inventory.

The initial development period varies from 3-10 years at each project during which time, all inadequate housing will be eliminated.

Army has developed a RCI Portfolio and Asset Management (PAM) program to monitor performance, compliance and financial health of projects over the next 50 years. PAM also highlights project enhancements for implementation across the entire portfolio.

**BACKGROUND:**

- a. The Military Housing Privatization Initiative (MHPI) Act, passed in 1996 and codified in 10 US Code 2871, provides the military Services with alternative authorities for the construction and improvement of military housing (family and unaccompanied personnel). Under these authorities, the Services can leverage appropriated housing construction funds and government-owned assets to attract private capital and expertise in an effort to improve the quality of life for service members and their families.
- b. RCI focuses on the total residential community, not just houses, and uses a Request for Qualifications (RFQ) acquisition process. This process reduces time and costs for both the Army and private sector developers. The RFQ process seeks to evaluate and award on the basis that the firm selected is the most high qualified, based on applied criteria, to collaborate with the Army to develop the specifics of the projects.
- c. To complete the RCI acquisition process, the Army awards a contract to the selected development partner to work with the installation to prepare a Community Development Management Plan (CDMP). This Plan serves as the business plan for each RCI project. It defines the proposed scope of work, as well as the developer's long-term relationship with the Army. The plan consists of three main plans: (1) development, (2) financial, and (3) operations, maintenance and property management. The CDMP is reviewed and approved by Headquarters, Department of the Army and the Office of the Secretary of Defense (OSD). The CDMP is then submitted to Congress for review. If the Congress does not object to the project, the Army issues a Notice to Transition.
- d. During transition, the Army and partners develop final legal documents to establish the structure of the partnership, related business agreements, the ground lease, and transition plan. Typically, the partnership is in the form of a Limited Liability Corporation (LLC) where the developer is the managing member and assumes authority for day-to-day operations. The Army is the minority partner and has limited but sufficient authority to protect the interests of the U.S. Government, Army and families. Partnerships have a 50-year term with a 25-year option. When final agreements are signed, units are conveyed to the partnership and the ground lease is executed, and the partnership assumes responsibility for operations and begins to collect rent. Rents are set equal to the resident's Basic Allowance for Housing (BAH).
- e. A direct investment of Army appropriated funds may be necessary to cover the "development gap", i.e., difference between estimated revenues (based on BAH, loan capability and equity) and estimated cost of development (based on housing conditions, repair/construction costs, and number of deficit units to be built). Financial tools to close a project's gap include direct cash investments, loan guarantees, and other options.