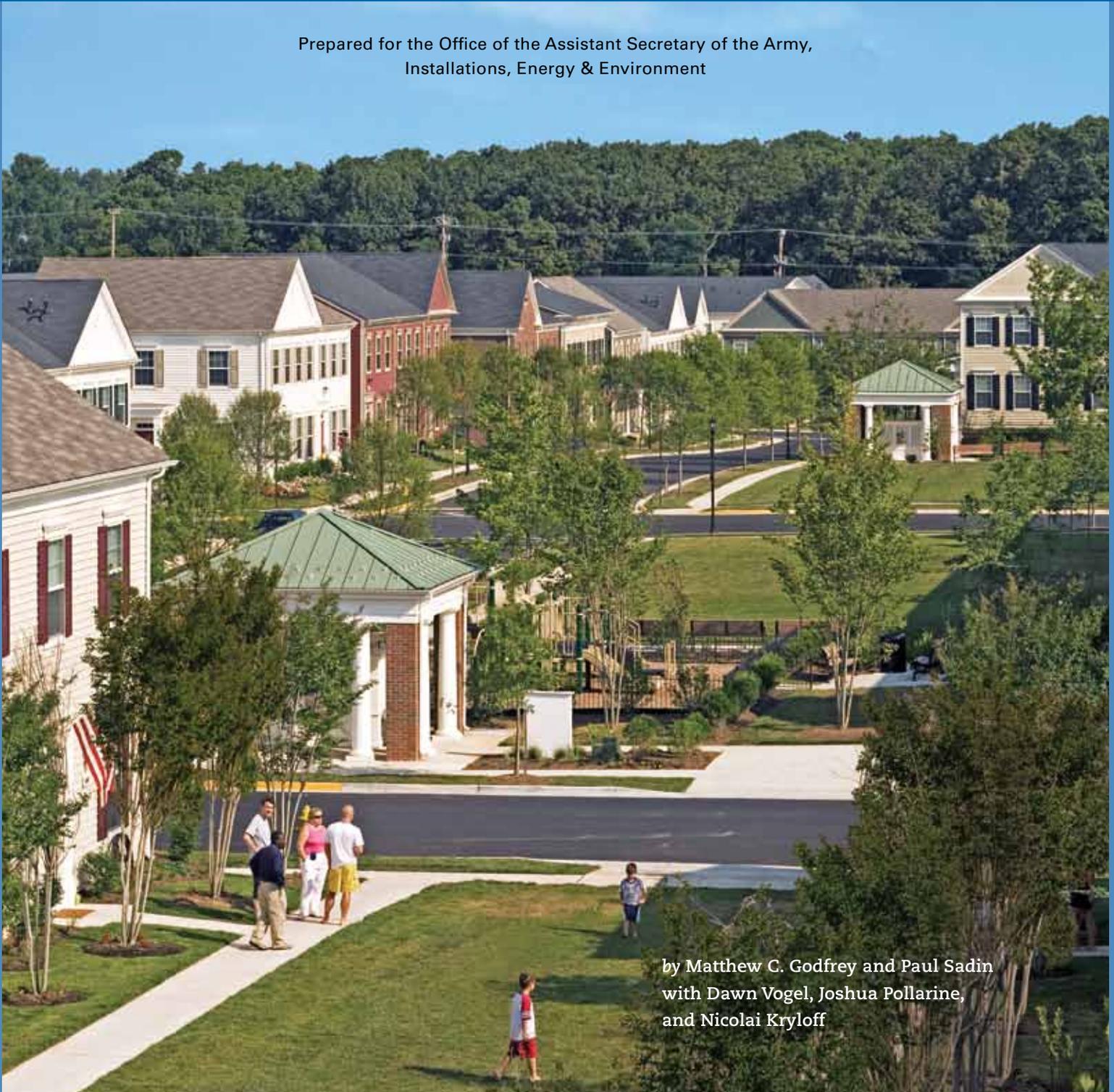




PRIVATIZING MILITARY FAMILY HOUSING

A History of the U.S. Army's Residential
Communities Initiative, 1995–2010

Prepared for the Office of the Assistant Secretary of the Army,
Installations, Energy & Environment



by Matthew C. Godfrey and Paul Sadin
with Dawn Vogel, Joshua Pollarine,
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Foreword

It has been my pleasure over the past 10 years to observe the progress of public/private ventures across the U.S. Department of Defense, first during my tenure with the U.S. Navy and more recently as Deputy Assistant Secretary of the Army, Installations, Housing & Partnerships. I am pleased to see that the U.S. Army's Residential Communities Initiative (RCI) has dramatically transformed housing on Army installations across the country.

The Army, with 34 different RCI projects across 44 installations, was the first Service to meet the Office of the Secretary of Defense mandate to complete privatization plans by 2010. As with any significant accomplishment, there are a number of contributors to its success.

A small team of dedicated Army civilians shepherded this program forward from the initial concept stage. Initially detailed to the Army Secretariat from other offices, this team was challenged to work outside the traditional Army paradigm, and to learn how to develop private-sector business transactions, develop the necessary transactional documents to execute them, and ensure sustainability over the long term.

RCI could not have been implemented without the spirit of partnership exhibited by the project partners. They entered into first-of-a-kind business arrangements with the Army and worked collaboratively to navigate the uncharted waters of the early privatization projects. The partners have dealt with the impact of deployments, fluctuations of housing allowances, credit crises, Office of Management and Budget scoring changes, and with the internal learning curve, as they worked to recognize the difference between a classic contract and a true business partnership.

As I review the challenges faced by early housing privatization detailed here, I marvel at the progress the RCI program has achieved in such a short period of time, while delivering a quality housing experience for our Soldiers and their Families. And with the Army and the Nation facing emergent pressures to reduce spending, RCI now gives us a plausible business model that can be exported to other categories of installations and facilities, in terms of both their infrastructure and their services.

Joseph F. Calcara
Deputy Assistant Secretary of the Army
Installations, Housing & Partnerships



Preface

It is rare in one's career to have the opportunity to work on a program for which the stars perfectly align. Such an opportunity comes when you're working on the right program, with the right people, at the right time. When the work is important and you know that you're making a difference for Soldiers and their Families. When the entire team is passionate about the work and when you learn something new every day. This is what the Residential Communities Initiative (RCI) program has been for those of us who have worked on it over the past 12 years.

RCI was the right program. The Army housing inventory had been languishing for some time, not due to lack of skill or forward thinking by the Army housing managers, but because of the unpredictable funding stream and long lead time associated with the budget process. Army managers knew that if they requested enough money to execute a large development or construction project, it would in all likelihood not

be approved, because the limited construction dollars had to be spread across many installations. In order to get a piece of the pie, managers would divide projects into phases, hoping to get incremental funding over a number of years so as to keep a project moving through to completion. Unfortunately this plan rarely worked. One phase would be funded, followed by a break of a few years, to be followed by funding of another phase, built by a totally different contractor. The result was disjointed and sporadic construction, which never resulted in the whole neighborhood development that the Army desired. In spite of the Army's best efforts, the concept of building a "community" appeared to be unachievable.

By privatizing housing under the RCI program, however, and giving Soldiers the ability to pay rent, the Army created a reliable stream of income that private-sector developers could use for long-term, continuous development. There was continuity of concept and design, resulting in the development



FIGURE P-1. Some of the members of the RCI team gathered at Fort Belvoir, Va., in 2007. From left to right: Tony Tramp, Randy Shed, Clarke Howard, Rhonda Hayes, Barbara Sincere, Holly Guzowski, Ian “Sandy” Clark, Sara Streff, Don Spigelmyer, and Tom Kraeer (kneeling).
 Courtesy of RCI Office.

of communities that not only fostered neighborhood interaction, but that gave the Soldiers a sense of pride in where they lived.

RCI had the right people. RCI had the visionary leadership of Sandy Apgar at the helm as Assistant Secretary of the Army for Installations and Environment during the initiation of the program. Apgar quickly realized that the Army’s traditional approach to project management would not work in this new effort. In the private sector, time is money and the Army needed to develop a team that could quickly respond to private-sector inquiries and that had direct access to Army leaders

and decision makers. He moved the RCI program from the bureaucratic, multi-layered trenches of the Army staff directly to his own office. While this move was certainly one of the secrets to RCI’s success, it was its out-of-the-box thinking, which would be seen repeatedly over the first 12 years of the program, that would make the biggest difference. The Secretariat was supposed to provide policy guidance and oversight; programs were not supposed to be executed directly from the Secretariat. As the RCI program gained more and more success, the outcry to move it out of the Secretariat became more and more pronounced. To their

credit, Assistant Secretaries for Installations and Environment Apgar, Fiori, Prosch, Eastin, Hansen, and Hammack continued to insist on keeping the RCI program in the Secretariat. In fact, when the issue was presented to LTG Lynch, the Assistant Chief of Staff, Installation Management, and Assistant Secretary Hammack for consideration in November 2010, LTG Lynch’s response was, “If it ain’t broke, don’t fix it.”

While the various Secretaries of the Army for Installations and Environment put their stamp on the RCI program in different ways, it was the RCI team itself that was the lifeblood of the program. Ted Lipham and Don Spigelmyer, sequentially, were the two RCI program directors who fought the early battles, followed in 2007 by Rhonda Hayes as Director of Capital Ventures in the Army Secretariat and Ivan Bolden as Chief of the Public Private Initiatives Division of the Office of the Assistant Chief of Staff for Installation Management. Other team members integral to the success of the RCI program were Ian “Sandy” Clark, who championed RCI’s portfolio and asset management program, and Mark Connor from the Office of General Counsel, who provided legal advice and oversight for all the RCI projects. These stalwarts of the program were supported by a group of hard-working program managers, who were dedicated to process improvement and who consistently worked above and beyond normal duty hours in support of the RCI mission.

A final component of the RCI team was the private-sector real estate and financial consulting firm contracted to support the RCI effort, Jones Lang LaSalle. Jones Lang LaSalle assisted the Army with business concepts, negotiation of deal terms, and real estate advisory services in an outstanding manner throughout the first 12 years of the program. The company was considered an



FIGURE P-2. Several RCI team members making the morning train commute to New York City to meet with consultants at Lehman Brothers in 2006.
 Courtesy of Randy Shed.

integral member of the RCI team, working side by side with the government program managers at every negotiation and every project closing. They were completely invested in ensuring that the Army’s interests were represented in every transaction. The Army’s success with the RCI program is attributable in no small measure to the dedication of the consultants of Jones Lang LaSalle and, while it is impossible to name them all, Barry Scribner, Dean Stefanides, Tim McGarrity, Francis Stefanski, Jennifer Hill-Leineweber, David Hoffman, Shannon Fisher, and David Ross were key contributors to that success.

Finally, the developers who participated in the RCI program and made it so successful must be acknowledged. They all entered into the program solicitations as business ventures, but each and every one of them approached their projects as much more than just another business deal. The nature of the work and the sacrifices made by Soldiers struck a chord with them, and the development community ended up providing much more than development and property management. Developers established charities and foundations, provided family member scholarships, constructed parks and war tributes, and participated in



FIGURE P-3. RCI team members socializing together at a 2009 Professional Housing Management Association Hospitality Night. From left to right: Todd Hunter, Rhonda Hayes, Nordin Perez, and Barbara Sincere.

Courtesy of Rhonda Hayes.

homecoming celebrations and memorial services. Many of these contributions were made without fanfare or recognition. They were made because of the true spirit of partnership and patriotism fostered by working for Soldiers and their Families on a daily basis. The developers have been our business partners over the past 12 years, but they have been true supporters of the Army Quality of Life in ways that we never envisioned. We truly appreciate their ongoing support.

The RCI program was introduced at the right time. The Army housing inventory was in dire need of major renovation and replacement. There was a backlog of more than \$6.5 billion in maintenance, repair, and improvement

requirements, not to mention a significant deficit of housing at a number of installations. The timing was right not only in terms of the need, but also in terms of the private-sector financial markets. Between 1999 and 2008, when the majority of RCI projects received private-sector funding, interest rates were at all-time lows. The underwriting criteria for projects were more favorable than they had ever been, a factor that ultimately contributed to the demise of the credit markets and a significant restriction of credit post-2008, but which allowed the projects to borrow significantly more money than had been originally envisioned.

Additional funds led to additional development and a better quality of life for Soldiers and

their Families. And while Soldiers are always deserving of a quality of life commensurate with those they serve and protect, this is never more true than during wartime. We had no idea when RCI started that the housing would become critical to Soldiers' peace of mind as they deployed for extended periods of time to Southwest Asia during Operation Desert Storm, Operation Iraqi Freedom, and Operation Enduring Freedom. Due to the RCI program, they could take some comfort in the fact that their Families were in well-maintained homes under the care of professional property management teams who not only took care of the homes but provided support for the Families under their roofs. Under the RCI program, the Army was able to be a limited member of the ownership entity, allowing it to realign the housing inventory to meet mission change initiatives such as Army Modular Force, Grow the Army, and Base Realignment and Closure.

Notwithstanding all the success of the RCI program and the positive impact that it has had on the Army mission and the Soldier Quality of Life, it would have been negligent of us not to chronicle the challenges encountered from inception to completion of the initial development periods. Don Spigelmyer recognized that the RCI story was one that might never be repeated again and initially commissioned the writing of this history. Historical Research Associates, Inc., has done a remarkable job distilling mountains of material and conducting numerous interviews over the past few years in an effort to be as comprehensive in telling the RCI story as possible. With the support of the United States Army Corps of Engineers, Historical Research Associates has produced a memorable and informative book, one that should serve as both a history and a learning tool for those seeking to implement similar programs in the future.

While the success of the RCI program has been unparalleled during the first 12 years of the program, the next 40 years will be the true test of its success. The program is envisioned as self-sustaining; it has the ability to take down additional debt, if needed, and to draw on accounts funded by continual reinvestment of revenues over time in order to fund future renovation and construction requirements. If allowed to continue in the manner envisioned by those who pioneered the program, there is no doubt that RCI's success would continue for decades.

Unfortunately, the rules are already beginning to change. Government bureaucrats seek to change the rules that are the cornerstones of the program. In an effort to protect the government from perceived budgetary obligations, rules are now implemented that would have precluded the very existence of the program had they been interpreted in this manner during RCI's inception. Policymakers who never totally supported the program are now moving toward an interpretation of existing laws and regulations based on misperceptions of government liability in the deal structures. Rather than move toward interpretations of rules that would harm an obviously successful program, why not think outside the box? Learn how the program is really structured. Use it as a template for future success.

In order for this to happen, the stars would have to align—we would need the right program and the right people at the right time. Can such a combination occur twice? For the sake of the RCI program and other future programs like it, let's hope so.

Rhonda Hayes
Director, Capital Ventures
Office of the Assistant Secretary of the Army,
Installations, Energy & Environment
September 2011



Acknowledgments

Just as the Residential Communities Initiative (RCI) program was not the product of a single individual, the preparation of this history has involved hard work and assistance from a number of key people. We especially would like to thank Bill Mysliwec in the U.S. Army Corps of Engineers (USACE), who coordinated our visits to the Army Secretariat and who answered myriad questions for us, and Rhonda Hayes in the Office of the Assistant Secretary of the Army for Installations, Energy & Environment, who took the time to answer many queries and to ensure that we had the assistance that we needed in preparing this history. Hayes also chaired the review committee that painstakingly read through and commented on several drafts of the manuscript and helped push the project through to completion. Ian “Sandy” Clark provided us with much helpful information on the Portfolio and Asset Management program, as well as the reorganization of the RCI Program Office in 2007. Dean Stefanides, former head of Army

Housing and a current consultant with Jones Lang LaSalle, provided us with a wealth of information, documents, and photographs. Don Spigelmyer, former Executive Director of the RCI Program, has been a strong supporter of this history from the start and, even in his retirement, has taken time to review materials and answer questions. Clark, Stefanides, and Spigelmyer served with Hayes on the manuscript review committee and contributed valuable corrections, additions, and personal perspectives for the final drafts of the manuscript. Matthew Parks, USACE, spent time getting us access to documents on the RCI Program Office’s Share Drive, an invaluable source of material. Ivan Bolden helped facilitate communication with several installations, while Sandy Apgar, former Assistant Secretary of the Army for Installations and Environment, provided us with important documents and generously gave us time to discuss the RCI program with him. William Armbruster, former Deputy Assistant Secretary of the Army

for Privatization and Partnerships, also served as a champion of this history and as a source of much information.

We thank all of those who took time out of their busy schedules to provide their perspective on the RCI program through oral history interviews. The list of individuals is too long to mention here, but a full list of interviewees is included in our bibliography. To all of them we want to say: Thank you for taking an interest in this history and sharing your time and thoughts with us.

Many individuals at the installations that we visited facilitated our research and made our stays more pleasant. Unfortunately, it was not possible in the course of this history to visit each installation. Instead, with the help of the RCI Program Office, we targeted several that we felt were representative of the RCI experience. Particular appreciation is due to Dean Quaranta at Fort Carson, Robert Erwin at Fort Hood, Laura Cole at Fort Detrick, Robert Boisvert at Fort Lewis, Aimee Stafford at Fort Meade, Vicki Davis at Fort Belvoir, Pat Baker at Fort Sam Houston, Pat Kelly and Gay Rearick at the Presidio of Monterey, and Ladye Blair at Fort Irwin, who helped coordinate our trips, including setting up appointments for oral history interviews.

Many of the partners at these installations took us on tours of the RCI housing and provided us with photographs and other graphics. Angela French Marcum with Picerne Military Housing at Fort Meade; Casey Nolan and Dale Andrews with Clark Pinnacle at Fort Belvoir; Kimberlee Schreiber with Equity at Fort Lewis, Allyson McKay and Ron Bennett with Lincoln Family Housing at Fort Sam Houston; Rick Wimer, Gina Slater, and Jodi Winters with Clark Pinnacle at Fort Irwin; Bob Shepko with Balfour Beatty Housing at Fort Detrick; and Mack Quinney and Jim Switzer with Actus Lend

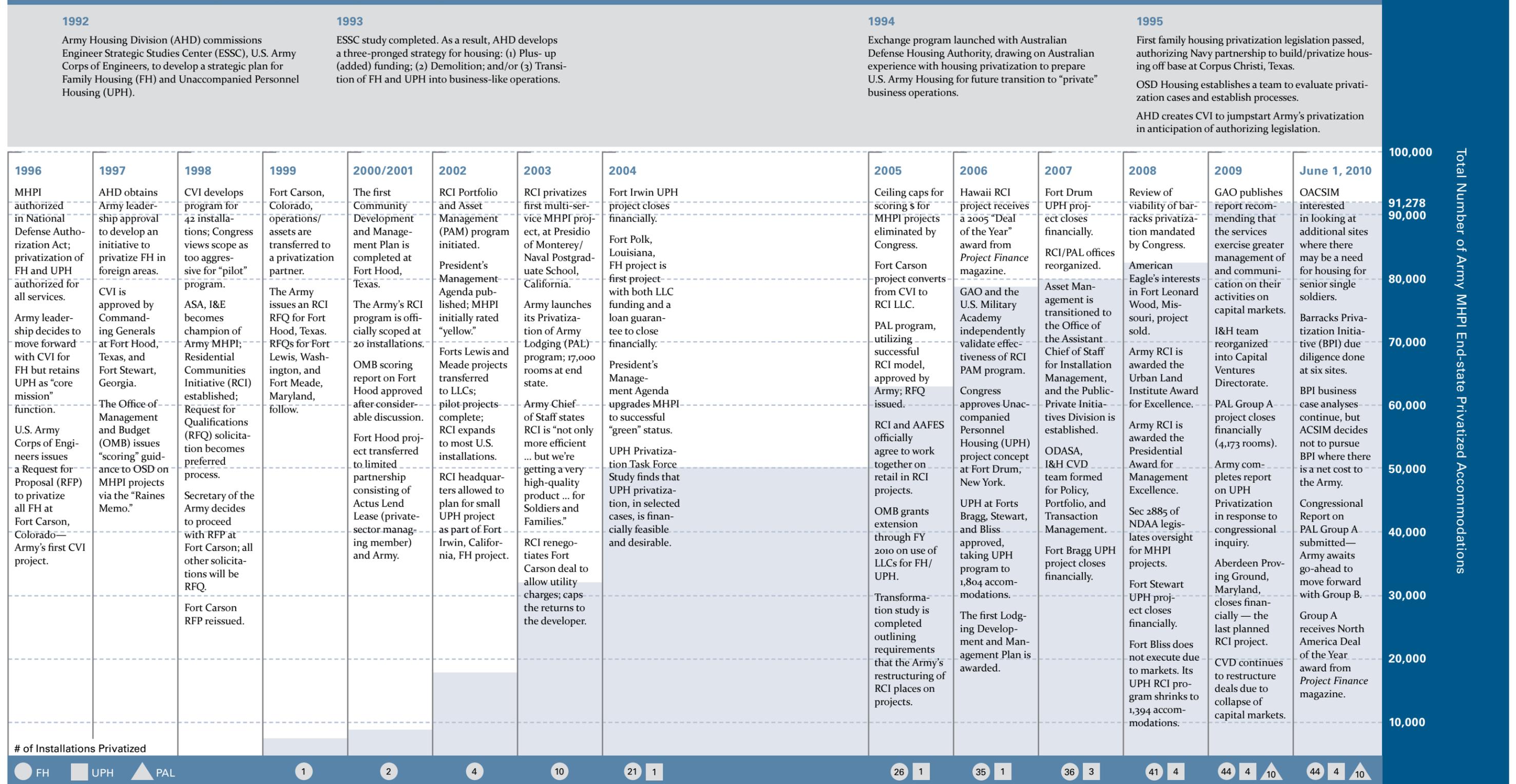
Lease at Fort Hood all had a hand in allowing us to see the developer's side of the RCI story. In addition, thanks go to the following individuals with RCI partner firms who provided us with the majority of the photographs, maps, and other illustrations that have helped make this a high-quality publication: Dianne Borges, Balfour Beatty Communities Group; James Cicchini, Lincoln Property Company; Amanda Filipowski, Picerne Military Housing; Cindy Gersch, Lend Lease Group; and Hallie Groff, Clark Realty Capital.

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Paul Sadin and Matthew C. Godfrey
Historical Research Associates, Inc.

Timeline

Evolution of the MHPI Programs (by calendar year through June 1, 2010)



*We utilize the phrase Army "privatization programs" to refer to all three initiatives: FH, UPH, and PAL. References to "RCI" include both FH and UPH.

Abbreviations

AAFES	Army and Air Force Exchange Service
ACSIM	Assistant Chief of Staff for Installation Management
ADA	Americans with Disabilities Act
AFB	Air Force Base
AFC	Army Family Covenant
AFH	Army Family Housing
AHA	Army Housing Authority
AMF	Army Modular Force
ASA, I&E	Assistant Secretary of the Army, Installations and Environment
ASA, IE&E	Assistant Secretary of the Army, Installations, Energy & Environment
BAH	Basic Allowance for Housing
BAQ	Basic Allowance for Quarters
BBC	Balfour Beatty Communities
BEQ	Bachelor Enlisted Quarters
BOP	Business Occupancy Program
BOQ	Bachelor Officers Quarters
BPI	Barracks Privatization Initiative
BRAC	Base Realignment and Closure
CBO	Congressional Budget Office
CDMP	Community Development and Management Plan
CGO	Company Grade Officer
CICA	Competition in Contracting Act
CMP	Contract Management Procedures
CNU	Congress for the New Urbanism
CR&R	Capital Repair and Replacement
CVD	Capital Ventures Directorate
CVI	Capital Venture Initiatives
DASA, E&P	Deputy Assistant Secretary of the Army, Energy and Partnerships

DASA, I&H	Deputy Assistant Secretary of the Army, Installations and Housing
DASA, IH&P	Deputy Assistant Secretary of the Army, Installations, Housing & Partnerships
DASA, P&P	Deputy Assistant Secretary of the Army, Privatization and Partnerships
DOD	Department of Defense
DVQ	Distinguished Visitor Quarters
EA	Environmental Assessment
EPA	Environmental Protection Agency
EUL	Enhanced Use Lease
FAR	Federal Acquisition Regulation
FCAHP	Fort Carson Affordable Housing Program
FGO	Field Grade Officer
FHA	Federal Housing Administration
FLCC	Fort Lee Commonwealth Communities
FORSCOM	U.S. Army Forces Command
FY	Fiscal Year
GAO	General Accounting Office; Government Accountability Office after 2004
GBE	Government Business Enterprise
GFOQ	General/Flag Officer Quarters
GIC	Guaranteed Investment Contract
GTA	Grow the Army
HMA	Housing Market Analysis
HPC	Historic Properties Component
HQDA	Headquarters, Department of the Army
HRSO	Housing Revitalization Support Office
HVAC	Heating, Ventilation, and Air Conditioning
IDP	Initial Development Period
IMA	Installations Management Agency; Installation Management Command (IMCOM) after 2006
IMS	Installation Management Study

IPT	Integrated Process Team
ISR	Installation Status Report
ISSA	Interservice Support Agreement
JLL	Jones Lang LaSalle
JNCO	Junior Non-commissioned Officer
LEED	Leadership in Energy and Environmental Design
LLC	Limited Liability Company
LMI	Logistics Management Institute
LP	Limited Partnership
MACOM	Major Army Command
MDW	Military District of Washington
MER	Minimum Experience Requirement
MHPI	Military Housing Privatization Initiative
MILCON	Military Construction
MoD	Ministry of Defense (United Kingdom)
MSP	Modified Scope Plan
MWR	Morale, Welfare and Recreation
NAF	Non-Appropriated Fund
NASA	National Aeronautics and Space Administration
NEPA	National Environmental Policy Act
NCO	Noncommissioned Officer
NHPA	National Historic Preservation Act
NOI	Net Operating Income
NORAD	North American Aerospace Defense
NPS	Naval Postgraduate School
NTC	National Training Center
OACSIM	Office of the Assistant Chief of Staff for Installation Management
OASA, I&E	Office of the Assistant Secretary of the Army, Installations and Environment

OASA, IE&E	Assistant Secretary of the Army, Installations, Energy & Environment
ODASA	Office of the Deputy Assistant Secretary of the Army
ODP	Out-Year Development Period
OGC	Office of General Counsel
OMB	Office of Management and Budget
OOP	Out-of-Pocket
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OTJAG	Office of the Judge Advocate General
PA	Programmatic Agreement
PADD	Parents Against Disability Discrimination
PAL	Privatization of Army Lodging
PAM	Portfolio and Asset Management
PFI	Private Finance Initiative
PHMA	Professional Housing Management Association
PM	Program Manager
POM	Presidio of Monterey
PVT	Private (military rank)
RCI	Residential Communities Initiative
RCO	Residential Communities Office
RFP	Request for Proposals
RFQ	Request for Qualifications
RFTA	Reserve Force Training Area
RIF	Reduction in Force
ROA	Right of Access
ROTC	Reserve Officers' Training Corps
SAF/IEI	Deputy Assistant Secretary of the Air Force for Installations
SGT	Sergeant (military rank)

SHPO	State Historic Preservation Office
SNCO	Senior Non-commissioned Officer
SOP	Standard Operating Procedures
SPiRiT	Sustainable Project Rating Tool
SSA	Source Selection Authority
SSAC	Source Selection Advisory Council
SSEB	Source Selection Evaluation Board
SSEP	Source Selection Evaluation Plan
SSG	Staff Sergeant (military rank)
SUH	Senior Unaccompanied Housing
TCE	Trichloroethylene
TRADOC	U.S. Army Training and Doctrine Command
UPH	Unaccompanied Personnel Housing
USACE	U.S. Army Corps of Engineers
USAMSCoE	U.S. Army Maneuver Support Center of Excellence
USMHBC	U.S. Military Housing Benefit Corporation
VCSA	Vice Chief of Staff of the Army
VHA	Variable Housing Allowance
WRAMC	Walter Reed Army Medical Center



Introduction

In 2002, U.S. Representative Chet Edwards (D-Texas) arrived at Fort Hood, Texas, to examine new family housing that had been constructed at the installation as part of the U.S. Army’s Residential Communities Initiative (RCI). The RCI was an effort by the U.S. Army to use the legal authority granted to it by Congress in 1996 to work with private developers to construct, operate, maintain, and manage military family and unaccompanied (that is, single) housing. Also home to a pilot project for the smaller privatization initiative that preceded the launch of the RCI program, Fort Hood was one of the first installations to obtain new RCI family housing. As Congressman Edwards gazed at the pristine three- and four-bedroom homes, he noticed one of the families that was about to move into the new homes. “How is it?” Edwards asked the mother, the wife of a sergeant stationed at Fort Hood. “This is so incredible for my family and our children,” the woman replied. “It is not only an

improvement in our quality of life. It says that our country respects our family’s sacrifice.”¹

The Fort Hood example highlights how far the Army had come in just a few years and reveals the enormous impact that RCI had—not only on new military housing construction, but also on soldiers’ sense that the nation recognized their sacrifices and wanted to ensure that they and their families were provided with comfortable, safe, and affordable homes. From its inception, RCI’s goal was to improve soldiers’ quality of life, both in order to increase retention and to show soldiers that the Army recognized the sacrifice that they and their families were making for their country. With these noble ideals, RCI went forward, although its development was by no means free of obstacles.

RCI was not the first experiment with privatization for the Army, or even for the Department of Defense (DOD). Since the late 1940s, Congress had enacted several laws that allowed the military



FIGURE I-1. Residents behind family apartments renovated during RCI development at Fort Hood, Tex.
Courtesy of Lend Lease.

to partner with private industry to build housing on installations. Even though these endeavors all produced some housing, they had varying levels of success and most of them floundered after just a few years. RCI, however, would succeed where these other initiatives had failed. Why? This history seeks to answer that question by exploring the leadership of the program, other programs that led up to RCI, the context in which RCI appeared and evolved, the program’s response to challenges along the way, and the sheer necessity for it to succeed.

The RCI program was the product of several years of debate and brainstorming by the Army, other military services, the DOD, and Congress about the DOD’s growing and severe family housing problem. As more and more service members married and had children, and as expectations of housing size and quality changed, the services had both a significant need for new construction to keep up with rising demand for on-post housing and a need for renovation of more than 200,000

preexisting homes. The DOD estimated that it would take 30 to 40 years and approximately \$20 billion to fix these problems, but it had neither the money nor the time for the renovations.² Thus, Congress passed the *Military Housing Privatization Initiative* (MHPI) as part of the *National Defense Authorization Act of 1996*, providing the DOD with the tools to partner with the private sector to improve its severely inadequate housing.

Even as Congress still debated the MHPI bill, the Army first tried to implement these tools under the Capital Venture Initiatives (CVI) program in 1995, but initial progress was slow. When Mahlon “Sandy” Apgar IV became Assistant Secretary of the Army for Installations and Environment in 1998, he brought with him a robust vision of family housing and christened his plan the Residential Communities Initiative. From that point forward, the housing privatization program progressed rapidly. By the end of September 2010, the Army had launched 34 privatized family housing projects

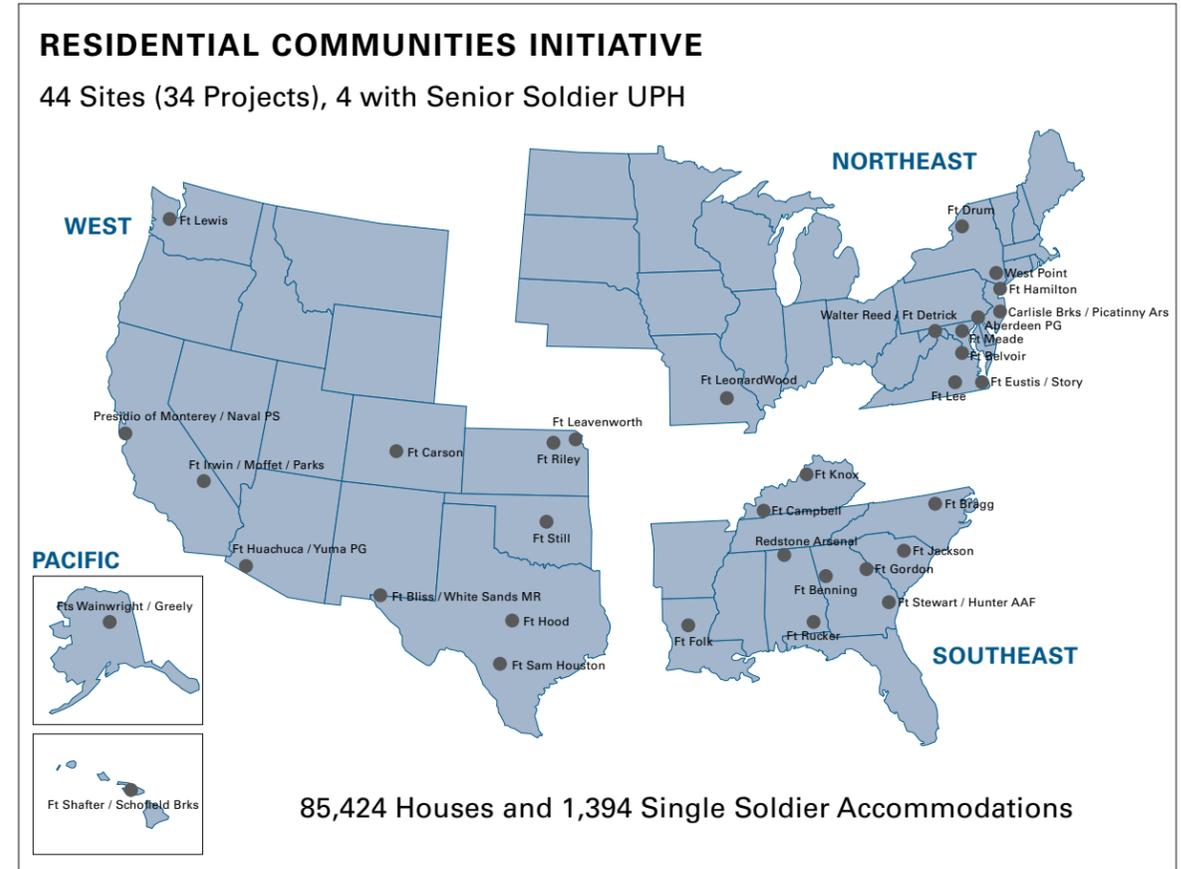


FIGURE I-2. Map of RCI project sites as of January 11, 2011.
Courtesy of RCI Office.

encompassing 44 installations. (Some projects involved multiple installations.) In the process, the Army had leveraged nearly \$1.2 billion of appropriated funds into more than \$11.5 billion worth of new and renovated houses.³

At every installation, soldiers need housing. In accordance with DOD policy, the Army relied on the private sector to provide housing outside of the gates for roughly two-thirds of its families, while attempting to house the remaining one-third on base. Overall management of the housing function fell to the Army Housing Division within the Office of the Assistant Chief of Staff for Installation Management (OACSIM).⁴

On the installations themselves, installation commanders—at least before privatization—had charge of housing their soldiers, according to the policies and procedures set forth by the OACSIM and the Office of the Assistant Secretary of the Army for Installations and Environment (OASA, I&E). Before privatization, each installation had a housing office that helped soldiers secure housing, whether on post or off post. The Directorate of Public Works on an installation had general responsibility for maintaining on-post housing, including responding to service requests. When any new housing had been necessary, the Army had requested funding through Congressional



FIGURE I-3. Two family housing residents in their neighborhood at Fort Jackson, S.C.
 Courtesy of Balfour Beatty Communities.

Military Construction appropriations and designated responsibility for the planning and construction to the U.S. Army Corps of Engineers, which generally contracted with private parties for the design and construction of the housing. With the advent of the privatization program, many of these on-post family housing functions shifted to private developers, who partnered with the Army to construct and manage on-post family housing.

Implementing privatization as the solution to the Army's family housing woes was not easy. From the beginning of the RCI program in 1996 into the twenty-first century, proponents of privatization, including the Assistant Secretary of the Army for Installations and Environment (ASA, I&E) and the RCI Program Office, faced opposition and doubt from internal and external stakeholders. These included garrison commanders, as well as some

within the OACSIM, Army headquarters, and Congress. This was a new way of doing business and change was not easy for Army leaders and congressional members to accept. That the Assistant Secretary's office and the leaders of RCI persevered is a testament to their belief in the program, their own leadership, and the strength of RCI itself.

The following pages detail the genesis of the privatization idea, its predecessors, the implementation of the RCI program, and the program's successes and setbacks along the way. The homes that Congressman Edwards surveyed at Fort Hood in 2002 did not begin with the floor plan; rather, they were the culmination of several years of experimentation, brainstorming, bureaucratic blood, and interoffice sweat. It is that story that this history seeks to tell.

ENDNOTES TO THE INTRODUCTION

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FIGURE 1-1. Army housing for officers constructed under the Capehart housing program in 1959.

Courtesy of History Office, USAMSCoE.



CHAPTER ONE

Military Family Housing Privatization Measures Prior to 1996

Faced with a severely deteriorating and dwindling stock of military housing for members of the U.S. armed services, Congress passed a law in 1996—known as the *Military Housing Privatization Initiative* (MHPI)—that allowed the U.S. Department of Defense (DOD) to go outside of the military to remedy the impending crisis. The law specified that the armed services could use innovative means to engage private developers for the construction and operation of military housing. The act provided various means—such as direct loans from the government to private contractors, the formation of limited partnerships, and the conveyance or leasing of DOD property to private entities—to entice the private sector into partnering with the DOD in the construction, renovation, operation, and management of military family and unaccompanied (single) housing.

The U.S. Army used the draft authorities in the MHPI bill and the subsequent legal powers provided in the MHPI legislation to establish the

Capital Venture Initiatives (CVI) in 1995 and, subsequently, the Residential Communities Initiative (RCI) in 1998. Passage of the MHPI act, however, did not occur in a vacuum; instead, the military made several attempts to engage the private sector in family housing development prior to 1996 and conducted several studies in the early 1990s making recommendations as to how military housing could be improved. This chapter discusses the history of these different endeavors in order to explain the background and context of the MHPI. Tracing this background is useful for understanding how the MHPI led to the RCI program.

FAMILY HOUSING PRIOR TO THE 1980s

Because the Third Amendment to the U.S. Constitution specifically prohibits the quartering of soldiers in private homes without owner consent, the Army has had the responsibility of housing its soldiers since the founding of the United States. For much of the Army's history,

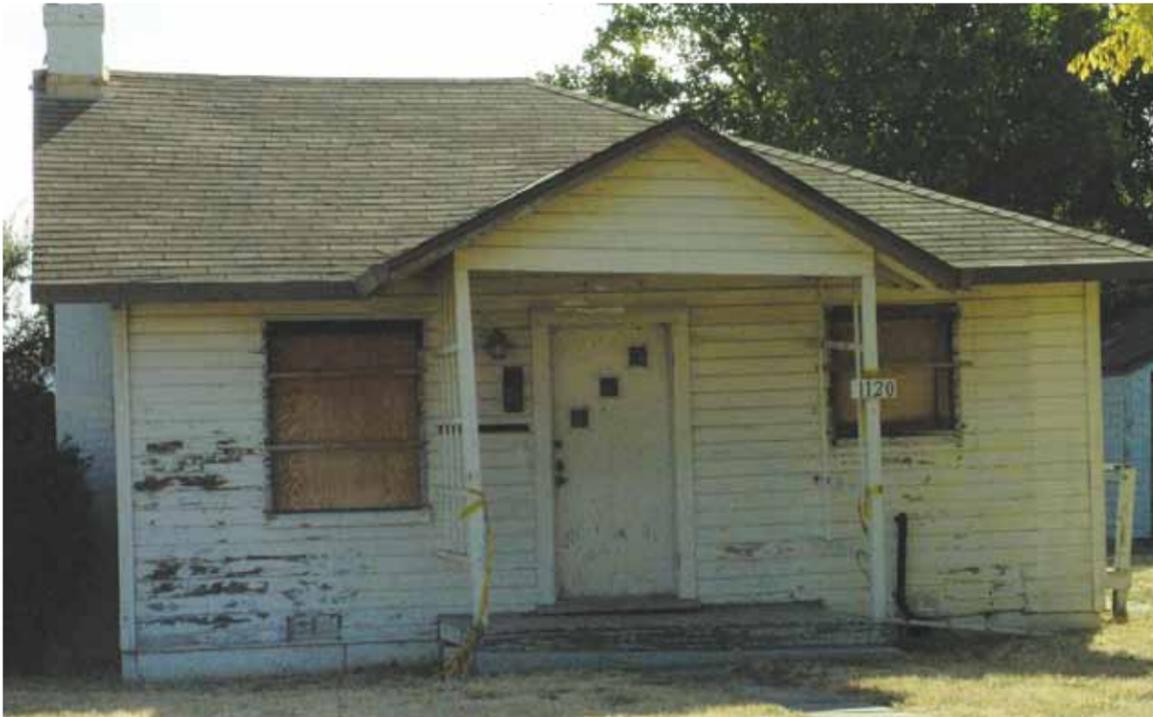


FIGURE 1-2. Shuttered family housing at Camp Parks, Calif., pre-RCI.
Courtesy of Clark Realty Capital.

enlisted personnel were usually single men who did not require family housing. Officers, however, were more likely to be married, so the Army provided family housing, often on a rudimentary and unsystematic basis. Congress funded this housing through military appropriations, but such appropriations were spotty at best during the nineteenth century, and matters did not improve much in the early twentieth century. By the late 1920s, as U.S. Army Corps of Engineers (USACE) historian William C. Baldwin points out, national publications were decrying the poor conditions of Army housing, calling the situation a “national disgrace.”¹

The Army periodically made attempts to improve its housing. In 1927, it received authorization from Congress to construct barracks and hospitals, using funds generated by the sale of World War I military reservations. It also turned some

World War I temporary mobilization buildings into family housing. Likewise, President Franklin D. Roosevelt’s New Deal provided some stimulus to the construction of new Army housing. Yet, a concerted effort to provide more and better housing for Army personnel did not occur until after the end of World War II, when concerns about the Soviet Union and the Korean conflict led to a larger peacetime force than the Army had ever seen.² Though faced with a shortage of suitable housing for this larger force, the Army committed to ensuring that its troops had proper quarters.

One option that the Army had used historically was providing officers with a Basic Allowance for Quarters (BAQ), money that would allow them to procure housing in the private sector. At first, only commissioned officers were eligible to receive BAQ funds, but the *Career Compensation*

Act of 1949 changed the eligibility rules so that non-commissioned officers with at least seven years in the military could also receive the BAQ. The following year, the *Dependents Assistance Act of 1950* extended the housing allowance to enlisted soldiers with dependents.³ Nonetheless, the Army continued to have as its goal, in the words of one official in 1948, “to provide quarters on posts for all authorized military personnel.”⁴

Wherry Program

Facing this situation and wary of spending the large amounts of money necessary to construct new housing through the traditional military construction method (whereby USACE would use congressional appropriations to build housing), Congress explored other ideas of financing development on military bases. One of the first came from U.S. Senator Kenneth S. Wherry (R-Nebraska), who in 1949 proposed a bill that would allow the Federal Housing Administration (FHA) to provide mortgage insurance to private developers to construct military housing on installations. Having this insurance, which essentially meant that the FHA would pay off the loan if the private developer could not, gave the developer a measure of security, which was an important incentive and facilitated the securing of financing. According to Wherry’s program, which President Harry Truman signed into law in 1949 as an amendment to the *National Housing Act of 1934*, the Secretary of Defense would have to certify that a housing shortage existed before an installation could qualify. The Secretary of Defense would also have to verify that the DOD was not planning to close the installation. When these requirements were met, private developers could get loans from private lenders. The developer would then construct and maintain houses located on installations



FIGURE 1-3. Senator Kenneth Wherry of Nebraska, sponsor of the Wherry housing legislation.
Courtesy of U.S. Senate Historical Office.

in accordance with the needs and requirements of the participating military service.⁵

Under the Wherry program, the DOD generally leased land at low rates to the private developer (although some Wherry construction occurred on private land near installations). Soldiers rented the homes from the private developer, paying their rent with their BAQ. The FHA developed the rent schedules for Wherry homes, setting rents at a price that would allow developers to fund operation and maintenance of the homes, as well as pay off the mortgage and gain some profit from their work. The housing remained the builders’ property for a period of 50 to 75 years. The incentives of mortgage insurance and low land costs induced private developers to construct approximately 84,000 housing units (27,000 of which were on Army installations), generally 830 square feet in size, on military bases between 1950 and 1954.⁶



FIGURE 1-4. Indiana Senator Homer Capehart, proponent of the Capehart housing program.
Courtesy of U.S. Senate Historical Office.

However, the Wherry program soon faced several problems. Congress set the maximum mortgage amount for the housing construction at \$8,100 per unit (later raised by Congress in 1951 for high-cost areas), which brought rent within the housing allowances of junior soldiers. Problems arose when charges were levied that private developers were obtaining the \$8,100 mortgages and then constructing homes at a lesser cost, thereby obtaining windfall profits, while also, presumably, providing subpar housing (since they were not spending as much to build the homes). Congress investigated such charges, which ultimately led to the dismissal of the FHA commissioner. Because of these issues, the DOD did not utilize the Wherry program to any large degree after August 1954, and it was discontinued in 1955 when Congress implemented another military housing project known as the Capehart Program.⁷

Capehart Program

Senator Homer Capehart (R-Indiana) sponsored new legislation aimed at correcting the Wherry program's deficiencies. Under the so-called Capehart program, the FHA continued to provide mortgage insurance to private developers, who formed distinct corporations charged with constructing housing on installations. But the developers would only build the housing; they would no longer maintain it under a lengthy lease. The corporation contracted with private lenders for a 25-year mortgage, 100 percent insured by the FHA, capped at \$13,500 per unit (which increased to \$16,500 per unit in 1956 and \$19,800 per unit in 1960). Upon the completion of construction, the service assumed control over the mortgage and the housing became government quarters. Service members living in the homes forfeited their housing allowance, which the services then used as mortgage payments and for operation and maintenance of the housing. To guard against the Wherry program's alleged windfall profits, Congress subjected the Capehart Program to the *Renegotiation Act of 1951*, whereby Congress could recoup any excessive profits generated by developers.⁸

President Dwight D. Eisenhower signed the Capehart Program into law on August 11, 1955. It operated from 1955 to 1962, generating approximately 115,000 housing units for the entire DOD, 36,000 of which went to the Army. Like the Wherry Program, the Capehart Program faced increasing criticism, especially after 1959. The complaints focused mainly on the high cost of Capehart housing for the federal government, critics insisting that traditional military construction with appropriated funds was cheaper. The practices of one developer, Hal B. Hayes, who did not pay his subcontractors, indicated to some critics that neither the FHA nor the DOD had enough oversight of the



FIGURE 1-5. Capehart housing at Fort Belvoir, Va.
Courtesy of U.S. Army Corps of Engineers Office of History.

process. In 1962, Congress refused to extend the Capehart program, stating that the DOD would thenceforward construct military housing only with appropriated funds.⁹ The experiment with using private developers for military construction seemed to be dead.

In the eyes of many members of Congress, programs such as Wherry and Capehart tied future congresses to large debts that they had not authorized. In modern terms, this was a type of “non-discretionary funding” that limited the amount of money future congresses had available to appropriate. Yet both the Wherry and Capehart programs clearly provided more family housing for military personnel than the services had seen before, and

the number of new houses built in the roughly 15-year period when these two projects were in existence would not be approached for many years.¹⁰ Because of the quantity of new housing they provided, both Wherry and Capehart could be considered successes, even though they were short-lived programs.

Even with the houses built under Wherry and Capehart, the armed services still faced housing shortages, forcing many soldiers to look in the private sector for homes. Indeed, in the early 1960s, Secretary of Defense Robert McNamara declared it DOD policy “to rely to the maximum extent possible on the civilian economy to provide housing for service families,” and the goal of seeking,

first and foremost, to house soldiers and their families off base in the surrounding communities has remained in place ever since.¹¹ This policy seemed farsighted: as the United States became more deeply involved in the Vietnam War, it had little funding available for construction of family housing or barracks. Yet despite the policy favoring civilian housing and the lack of funding, the DOD still considered it important to provide family housing on installations.

Providing on-base, high-quality living quarters for soldiers became an even larger issue after 1973, when the federal government eliminated the draft and created an all-volunteer force. The Army had to improve facilities in order to attract new recruits, as well as to entice soldiers already in uniform to re-enlist. In addition, the percentage of enlisted personnel who were married increased in the 1970s. By 1977, approximately 60 percent of all military personnel were married. The higher numbers of married personnel, according to one report, “strained DOD housing programs and allowance systems, both of which were insufficient to yield adequate housing (on base or in the community) for many.”¹² This was unfortunate, as studies showed that the type of housing offered to military personnel and their families had an impact on whether individuals reenlisted.¹³

THE 1980s

As the economy weakened and military expenditures declined in the post-Vietnam War era, the DOD had even less money to spend on either the construction of new housing or the maintenance of existing homes. Under these conditions, the DOD explored other options. One of these was using U.S. Department of Housing and Urban Development housing programs, one of which—the Section 236 program—allowed for the use of subsidized interest

rates in financing the construction of homes designated for low-income residents, specifically including military households. However, federal officials, among them the comptroller general, objected to military use of subsidized civilian housing, in part because there was a stigma associated with designating soldiers “low-income” people.¹⁴ The program died in the early 1980s.

After the election of President Ronald Reagan in 1979 and the Iran hostage crisis of 1979–81, the new administration pressured Congress to appropriate more money for the DOD. Quality of life issues—perceived as important in recruiting and keeping soldiers—became even more significant. As increasing numbers of enlisted personnel married, it became more important for the DOD and the armed services to be more “family-friendly.”

In this situation, the Army was able to capitalize on increased defense spending under the Reagan administration to construct more family housing. Yet even with this construction, housing shortages still persisted, especially for junior enlisted soldiers. In some areas, the high cost of housing prevented military members from finding suitable accommodations. In addition, the definition of “suitable accommodations” was changing. Whereas a family in the 1950s might have welcomed a house with only one bathroom, soldiers in the 1980s had different expectations, including, according to a contemporary newspaper article, “more bathrooms ... more living and storage space, various appliances, parking for at least two cars and other amenities.”¹⁵ Aware of these circumstances, the DOD implemented various initiatives, including the Variable Housing Allowance (VHA), which raised the housing allowance in high-cost areas, in order to make housing more affordable. As a result of studies conducted by experts such as the Rand Corporation, which in 1982 indicated



FIGURE 1-6. Pre-RCI duplex at Fort Polk, La.
Courtesy of Picerne Military Housing.

that private-sector development and the use of housing allowances was the most efficient and economical way of obtaining new housing, the DOD investigated once more the option of partnering with the private sector on housing construction.¹⁶

Section 801 and 802 Programs

This turn towards privatization was not surprising, given the fact that President Reagan advocated privatizing many government functions during his presidency. The *Military Construction Authorization Act of 1984*, for example, contained two different family housing programs that relied on the private sector for construction. The first, delineated in Section 801 of the act, was a build-to-lease program that involved long-term leases. Under its provisions, a private developer could

construct housing either on or off base and the government would lease the housing from the developer for a period not exceeding 20 years. During that time, the developer would be responsible for maintenance (although the government would operate and maintain it if it was more cost-effective that way) and at the end of the term the government would have the right of first refusal to purchase the housing. Soldiers assigned to the housing forfeited their housing allowances. Under Section 801, rental rates were based on the congressional appropriations used for the construction and maintenance of each development.¹⁷

Section 802 of the *Military Construction Authorization Act of 1984* called for the use of rental guarantees to induce private-sector involvement. According to this section, the

government would guarantee for 15 years a 97 percent occupancy rate for housing constructed by private developers on private land near military installations. The developer would give military personnel priority in renting the homes, and the renters would provide the developer with rent out of their housing allowances. In contrast to the DOD's method of calculating housing rent in Section 801, rental rates for Section 802 homes were set according to a soldier's Basic Allowance for Housing (BAH), plus the VHA, plus 15 percent as each soldier's contribution.¹⁸ The developer would operate and maintain the housing. At the end of the 15 years, the DOD would not purchase the property; the private developer would be able to use it as he or she wished. Under both the 801 and 802 programs, only those who were at the E-4 rank or above could live in the housing, and no 801 or 802 projects could be constructed unless the DOD showed that an installation had a shortage of family housing. The two programs were originally established as pilots, but both became permanent in 1991.¹⁹

In both of these programs, it was important whether the private housing was treated as government-owned or -leased or privately owned. If the housing was government-owned or -leased, the DOD could assign soldiers to it and the soldiers would forfeit their housing allowance. If the housing was rented, the soldiers had to pay for it out of their housing allowance, whether or not that allowance actually covered the rental amount. In both the programs, Congress specified that the DOD had the right to assign service members to the housing and that such assignment had to be accepted.²⁰ However, the Army launched only one Section 802 project, for which it decided to guarantee only rental occupancy, but did not include mandatory assignments.²¹

The DOD had some success with the Section 801 program, even though the House Armed Services Committee and House Appropriations Committee had raised objections to the program by the late 1980s. They feared that it cost taxpayers too much money to lease land from private developers and that the DOD was relying too heavily on 801 leases and too little on military construction appropriations. There were also questions about having the developers maintain the housing. As a result, the DOD assumed operation and maintenance of some of the housing in 1987.

Private developers also had some reservations about both of the programs, in part because the authorizing legislation stated that Congress was not obligated to appropriate money for the programs in future fiscal years. The uncertainty about future congressional funding made it difficult for developers to obtain financing. But after the USACE Office of General Counsel issued a letter assuring developers of the government's intention to obtain annual appropriations, some of these fears were allayed. Developers also had concerns about Section 802 housing, mainly because part of the rent (the part that would go to the cost of the construction, rather than to the maintenance of the building) was fixed over the life of the agreement. In 1986 Congress allowed rent to be raised to meet inflation. In addition, the DOD admitted in 1986 that the rental guarantee program did not work in areas with high land and labor costs, as it did not provide enough incentive to private developers. Many members of Congress especially opposed the 802 program, believing that it was unworkable.²²

Other problems with both programs arose because of scoring issues with the Office of Management and Budget (OMB). As Corps historian William Baldwin has explained, "The process of



FIGURE 1-7. Pre-RCI housing at Fort Polk, La.
Courtesy of Picerne Military Housing.

'scoring' or 'scorekeeping' determined whether the total cost of a long-term program would be charged against the federal budget in the first year or would be spread out over the life of the program." In the initial years of the 801 and 802 programs, OMB scored them on a yearly basis. In 1990, however, the OMB reversed its procedure, declaring that it was more appropriate to score the entire cost of the programs in their first year, meaning that the DOD would have to cover the cost of the entire lease or the entire rental guarantee in that first year. This decision, in effect, killed the 801 and 802 programs, as it negated the DOD's budgetary advantage. Despite these problems, Section 801 generated approximately 4,080 homes for the DOD, including new housing at Army installations at Fort Drum, New York; Fort Hood, Texas; Fort Polk, Louisiana; and Fort Bragg, North Carolina. Section 802 was less successful, as by 1993 it had produced only a small housing project of 276 homes at Kaneohe Bay Marine Corps Air Station in Hawaii.²³

Section 2667 Program

The DOD explored another privatization option in the mid-1980s. Title 10, Section 2667 of the U.S. Code (dealing with the Armed Forces) authorized the secretary of any military department to lease excess "real or personal property" not needed by the department, as long as it was in the interest of the nation's defense.²⁴ When the 7th Infantry Division was designated in 1985 to return from Korea to Fort Ord in Monterey County, California (a high-cost area for housing), this Section 2667 authority was seen as a quick way to provide housing for the incoming soldiers. Therefore, the Army leased 50 acres at Fort Ord to Ray Roeder and his California company, The Rinc Organization, to provide 220 Fleetwood single- and double-wide manufactured homes in a neighborhood that became known as Brostrom Park. The Army leased the homes from The Rinc Organization under a 25-year lease, with the understanding that the company could rent to

non-military personnel if there was not enough military demand.²⁵

Brostrom Park satisfied the immediate need for housing at Fort Ord, but long-term solutions were necessary as well. Because the 2667 authority had worked well, Fort Ord's housing office, headed by Ian "Sandy" Clark, elected to use it again after a housing market analysis determined a need for more housing at Fort Ord as well as at Fort Hunter Liggett. Fort Ord issued a Request for Proposals (RFP), detailing what it needed, and from the proposals received chose to partner with Empire West Companies. Fort Ord entered into a 50-year lease with Empire West, which then constructed, operated, and maintained one- and two-bedroom apartments that it rented to military personnel. The rent for the apartments came from the soldiers' housing allowance, but was based on the size of the apartment and the number of amenities soldiers received. Rent was also indexed for inflation, which enabled Empire West to increase their rental fees to match the rate of inflation.²⁶

However, in 1995, the Army announced that Fort Ord would be closed under the Base Realignment and Closure (BRAC) program. Under the terms of their leases, the private developers were able to rent the housing to government civilian employees and then to any potential tenant. Brostrom Park was renamed Bay View and became a desirable housing venue for residents of the towns of Seaside and Marina, California. Similarly, Empire West rented its facilities to civilians and survived the BRAC closure. However, in the opinion of Sandy Clark, the 2667 experience at Fort Ord indicated that the private developers had assumed too much of the risk and that, in future endeavors, the Army had to offer more guarantees to the partner.²⁷

The privatization programs detailed above—Wherry, Capehart, Sections 801, 802, and

2667—taught the DOD lessons about how to use the private sector to construct and operate family housing. According to Elizabeth L. Fagot, who worked in the Army's real estate division, these lessons included recognizing the complexities of the long-term relationship between the military and the private sector that such programs entailed. Because agreements under the 801 and 802 programs required years of cooperation, for example, it was important that developers be familiar with Army culture and that the Army commit itself to partnering principles. Fagot also believed that the Army needed to be more realistic about its capacity for executing the property management and administrative responsibilities required by such agreements.²⁸ To supplement these initial lessons learned, B. J. Frankel, the Army's director of real estate, commissioned the USACE Office of History to produce a research paper detailing the legislative and policy history of the Section 801 and 802 programs, as well as the Wherry and Capehart programs. In 1996, Corps historian William Baldwin completed that document, "Four Housing Privatization Programs," which provided important background context as the Army discussed the possible solutions to its future housing problems.²⁹

THE 1990s

Despite the experiments with the 801, 802, 2667, and other programs, the DOD entered the 1990s still facing a lack of adequate housing for its members. The situation was exacerbated as the federal government made increasing efforts to balance its budget and relieve the massive deficit that had accrued during the 1980s. As part of this process, Congress and the Clinton administration focused on privatizing governmental tasks and reducing the size of military forces, especially in Europe, as the Cold War came to an end. The greater austerity



FIGURE 1-8. Family housing apartments prior to RCI development at Fort Bragg, N.C.
Courtesy of Picerne Military Housing.

in federal spending and the military downsizing meant that less money was available for family housing construction and maintenance.

In addition, the military as a whole experienced a change of climate in management and administration during the late 1980s and early 1990s. As Assistant Secretary of the Army for Installations, Logistics and Environment Susan Morrissey Livingstone explained, "The Army was looking at new programs, new concepts, and new ways of doing business." One thing on which Livingstone focused was integrating installations "in the thought process of Army readiness." Fearing that the Army had relegated installation management to a backseat, Livingstone proposed the creation of the Office of

the Assistant Chief of Staff for Installation Management (OACSIM) within Army Headquarters. She hoped that the new agency would provide installation management and training for the Army Staff. The Army formally established the OACSIM on October 1, 1993.³⁰

With this increased emphasis on the importance of installations and a recognition of the poor state of housing on those installations came the Army's realization that "the only certainty confronting tomorrow's Army is a declining defense budget." This meant that Army housing planners needed to "reexamine their fundamental philosophy and establish a strategic course for the twenty-first century."³¹ This was especially important as several

studies commissioned in the early 1990s found that familial conditions—including housing—were important factors influencing soldier reenlistment. As one report explained, “The availability and quality of housing ... is critical for the Soldier and his Family’s adaptation to the Army.”³²

Studies on Military Family Housing

In order to formulate new policies for family housing, the DOD commissioned several reports and studies in the early 1990s. One of the first, commissioned by the Army and conducted by the USACE Engineer Strategic Studies Center, was published in 1993 as a strategic plan for Army family and unaccompanied housing. The impetus for this study was a 1992 inquiry by the Army’s Chief of Staff as to whether anyone was completing a “think piece” on Army family housing and what the military service’s needs were. Based on that question, the Army asked the Corps, which served as the traditional contracting and construction arm for military housing, to undertake the study. The study was to focus on the current state of military housing, issues that required leadership attention, and the development of “an Army vision” for family housing.³³ Several individuals who would later be involved in RCI were on the team that the Corps put together for this study, including Don Spigelmyer, who would later become director of the RCI office.³⁴

The Corps team conducted written surveys and oral interviews to collect information from senior leaders and managers in the Army and the Office of the Secretary of Defense (OSD), as well as from installation housing offices and residents of family housing. It then analyzed the data to identify “the more significant social, economic, and political trends” relative to family housing and used this information to construct a vision of Army housing and specific goals. In doing so, the Corps assumed

that “the ultimate objective of the Army is to attract and maintain quality people” and that “attracting and maintaining quality people require[s] a quality working and living environment.”³⁵

The Corps housing study determined that the Army had approximately 117,000 units of family housing in the United States, and that approximately 89,000 of these homes were at least 25 years old. Because each unit had undergone frequent turnover and because standard maintenance had not always been performed, it was determined that “many of the Army’s houses are in conditions that require major investments if they are to continue sheltering Army families.”³⁶ Approximately 92,000 of the 117,000 homes required some form of rehabilitation, ranging from major repairs to complete demolition and replacement.³⁷ As Don Spigelmyer later put it, “They weren’t exactly Cadillacs when they were built ... and we hadn’t put in the proper amount of maintenance and repair into them.”³⁸ The Corps study estimated that the rehabilitation and reconstruction efforts would cost the Army at least \$574 million per year for the next 10 years, a total of roughly \$6 billion to pay for the backlog of much-needed renovations. Facing such a large housing cost with a trimmed DOD budget—and realizing that family housing did not have as high a priority as other expenditures in the DOD—Army leaders, according to the Corps, shifted their perspective from relying on military construction appropriations to embracing private-sector funding of family housing. Even though the DOD had used the private sector to provide housing for soldiers off post, Army leadership, at least until the 1990s, had continued to regard such reliance as only a temporary measure, not as a permanent solution.³⁹

The major problem, according to the Corps, was that the Army had traditionally constructed family housing for officers and senior

non-commissioned officers (NCO), not junior enlisted personnel. Yet by the 1990s, more than 50 percent of all junior enlisted soldiers were married.⁴⁰ With no available housing for them on post, these soldiers had to turn to off-post options. However, because housing allowances were based on grade, junior enlisted soldiers’ allowances often could not cover the cost of off-post housing. Clearly, the Army had to do something in order to address this dilemma, especially since the overriding theme that the Corps heard from its respondents was that “Every Soldier should have a home that is affordable, comfortable, and convenient—one that promotes a sense of pride and loyalty.”⁴¹ In order to achieve this vision, the Corps stated, the Army had to develop “innovative management techniques based on future conditions” and “a more business-oriented approach to running the installations.”⁴²

Also in 1993, the Congressional Budget Office (CBO) conducted a study of military housing. The CBO, which began operating in 1975 to provide information to Congress for its budget decisions, examined how effectively the traditional way of housing military personnel worked—that is, providing housing to individuals on post and providing a housing allowance to those who lived off post. It also studied the practicality of the DOD’s policy of housing soldiers on base “only when the private sector is unable to provide adequate, affordable housing or when personnel must be housed on base to ensure military readiness.”⁴³

After making its examination, the CBO determined that the DOD’s methods were cost-effective but that the DOD did not always follow these methods, especially since many families preferred to live on base rather than off. There were several reasons for this preference, including the fact that off-post families typically spent 20 percent more

than their entire allowance to fund their housing, while on-post residents, who also forfeited their entire housing allowance, were paying only about 60 percent of the true cost of their housing. This “price subsidy,” the CBO concluded, “encourages service members to use DOD housing,” as did several other intangible factors, such as the sense of community that military members felt on base. With many people preferring to live on base and with what the CBO found to be an aging and dilapidated housing inventory, the DOD needed to make some hard choices about military housing. These decisions would be even more difficult because of the reality of the DOD’s financial situation. In the CBO’s estimation, it would cost the DOD \$880 million a year between 1994 and 1999 to either replace or renovate its military housing inventory. This estimate did not include the expense of constructing additional housing.⁴⁴

In the CBO’s opinion, the DOD had five options for solving its problems. First, it could just keep the number of on-base housing units static, replacing those that needed replacing but not expanding its inventory in any significant way. Second, it could reduce the number of families living on base and rely more on the private sector. Third, it could raise housing allowances, thereby allowing better access to private-sector homes. Fourth, it could “increase the regional differentials in housing allowances, lowering allowances in low-cost areas and raising them in high-cost ones.” Finally, it could give housing allowances to those soldiers living on base and have them pay for both rent and utilities out of that allowance. Doing so would allow the DOD to “operate its housing in a manner similar to that of a private-sector provider.” Whatever the case, the CBO was convinced that the DOD had to entertain different options for providing housing to its personnel, given the high



FIGURE 1-9. President Bill Clinton (left) and Secretary of Defense William Perry (right), with Colonel David H. Huntoon, U.S. Army, inspecting the troops at Fort Myer, Va., on January 14, 1997.

Photograph by Helene C. Stikkel. Courtesy of U.S. Department of Defense.

demand for on-post housing and the poor quality of the existing inventory of that housing.⁴⁵

THE MOVE TOWARDS PRIVATIZATION

As the military examined creative ways of solving its housing problem, it increasingly looked at privatization, in part because of the general trend in the federal government towards privatizing governmental functions. In 1994, USACE commissioned a study by the Delta Research Corporation to develop methods of partnering with the private sector for construction of family housing. This study noted that the military had already engaged private developers in several housing projects

(including the Wherry, Capehart, and Section 801 and 802 programs) but found that the instability of such programs, coupled with stringent construction and maintenance standards, had created an environment in which neither the military nor the private sector had much interest in interacting. Yet, the study concluded, there was hope. “When DOD has successfully completed a large number of housing projects under one or two privatization authorities, and the process appears stable and less risky,” it optimistically stated, “then installations and developers will once again become interested in using privatization as a means of obtaining military family housing.”⁴⁶

The Delta report outlined specific barriers that stood in the way of private developers and the military working together. These included bonding and escrow requirements; strict DOD construction regulations (such as “rigidly defin[ing] square footage requirement[s] for different family sizes and pay grades”); uncertainty surrounding what responsibilities the military would have in the post-Cold War world; and military lifestyle. To overcome these obstacles, the report recommended that the DOD explore options such as limited partnerships, in which it could establish an Investment Board to arrange and manage partnering opportunities. When the board had identified an opportunity, the report suggested, it could competitively select a private-sector partner and enter into a partnership agreement with that entity. As part of the partnership, the DOD would relinquish responsibility for day-to-day management of the housing to the developer, thus providing the partner with more freedom. The report also explained that an out-leasing authority might be a viable option, similar to what the 2667 program provided for. In any case, the report concluded, Congress would have to provide authorization for the DOD to explore new ways of engaging the private sector.⁴⁷

The exploration of different options for dealing with military family housing received an additional push when William J. Perry became Secretary of Defense in 1994. A businessman and aerospace engineer who had served as an undersecretary during the Carter administration and as Deputy Secretary of Defense from 1993 to 1994, Perry placed a high priority on improving the quality of life of the United States’ military forces, and he saw housing as the major quality-of-life issue. “What I want to do is equate dealing with the housing problem with [military] readiness,” he explained. “I see a

single, iron logic that drives me from one to the other.”⁴⁸ But he also realized that traditional solutions were no longer viable. “Our housing problem has been a tough nut to crack,” he stated. “The problem has developed over the past decade—particularly, a shortage of housing for junior enlisted and junior officers.”⁴⁹ Others in the Pentagon also saw the housing problems. Comptroller John Hamre commented, “If you ever drove up with your kids to a college with that kind of housing, you’d never leave your kid.” The situation was so severe, Secretary Perry related, that poor housing was the “number one complaint” that service members made in his visits with them. Perry was determined to change the situation and considered improvements to housing as one of the “handful of legacies” that he wanted to leave behind.⁵⁰

Perry proposed an initiative to increase the amount of DOD spending on family housing by \$450 million a year for six years, and to raise off-base housing allowances. But such funding would only be a drop in the bucket compared to the amount of money needed to address the military’s construction and renovation needs.⁵¹ Therefore, Perry directed the OSD to examine the housing situation, including the question of whether privatization was a viable choice. The OSD first needed to obtain feedback from housing officers, personnel officers, and financial officers to arrive at a comprehensive view of the issues. To do this, the OSD engaged the Corps Engineer Strategic Studies Center team, a group that had already produced the 1993 study of Army housing partnerships with the private sector.

The team examined a variety of reports on military families and housing issues, as well as quality-of-life studies, ultimately compiling all of the information into a 1995 OSD task force report on military family housing. This report

first addressed the team's findings on housing. It determined that private construction off base was a good alternative to on-post housing because it was cost-effective, it gave the DOD greater flexibility in placing troops on installations, and it was preferred by some service members. Despite this, the report admitted that on-post housing was still necessary because the job responsibilities of certain positions (e.g., emergency responders) required some military members to live on base. In addition, the private sector in some areas could not generate sufficient off-post housing. This meant that the DOD had to provide on-post housing. But, as other various reports had also concluded, the cost of renovating and maintaining current inventories across the services would be huge, estimated in the report at more than \$12 billion. In addition, the current supply of on-post housing was not sufficient. Average waiting times to get into such housing exceeded six months and on some bases was more than two years.⁵²

The OSD report concluded that there were three key points that the DOD's plan for family housing had to address. First, "Every service member deserves quality housing that promotes pride, loyalty, and readiness" and the DOD had the responsibility to provide that housing in one way or another. In doing so, the report continued, the DOD needed to maintain a "balanced approach" to housing, as "no single strategy can be applied at every installation to achieve the vision of providing quality ... housing for military members and their families." Second, the DOD should focus on the needs of junior enlisted families, who, according to the report, required the most attention. "The basic issue is that the private sector does not provide adequate housing that junior enlisted can afford," the report explained, "and the installations do not provide enough homes on base to accommodate

junior enlisted families." Third, in order to address these issues, the report recommended that the military use the private sector more effectively to increase its housing supply. Echoing the Delta Research Corporation report commissioned by USACE, the OSD suggested that the DOD examine the option of entering into limited partnerships with private developers. The OSD also recommended that the DOD try to obtain out-leasing authorization, as well as the ability to sell military housing and land to fund housing replacement and renovation.⁵³

Interestingly, just as the OSD was compiling data for its military family housing report, Congress was already giving the U.S. Navy the necessary authority to enter into limited privatization partnerships. As noted previously, many within the military services considered Section 801 and 802 authorities unworkable because of scoring issues. But some Navy officials pondered the feasibility of entering into limited partnerships with private developers. The *National Defense Authorization Act for Fiscal Year 1995* provided the Navy with the authority to enter into those partnerships, funding them out of an account called the Navy Housing Investment Account (consisting of appropriated funds and the proceeds from investment repayments or profits) that was governed by the Navy Housing Investment Board (consisting of two private-sector individuals and five government officials). Under the partnership, the Navy could contribute anywhere from 5 to 35 percent of the development costs and the developer would contribute the rest.⁵⁴

Using this authority, the Navy pursued two limited partnerships—the first in Corpus Christi, Texas, and the second in Everett, Washington. In July 1996, the Navy entered into a 10-year partnership agreement with a private developer in

Corpus Christi to build 404 family housing units in Portland, Texas, and Kingsville, Texas (communities close to the Corpus Christi Naval Air Station, the Ingleside Naval Station, and the Kingsville Naval Air Station). The total cost of the project was \$32 million, of which the Navy contributed \$9.5 million, thereby allowing the developer to give the Navy occupancy preference. Rents were based on the housing allowance of an E-5, although the rents of some of the homes exceeded that. At the end of 10 years, the developer would sell the homes and give the Navy its initial \$9.5 million contribution, as well as one-third of the proceeds from the sale. The partnership was similar in Everett, Washington, where 185 family housing units were to be built for service members at the Everett Naval Station. In this case, however, 20 percent of the homes would be sold each year after the sixth year, rather than all at the end of 10 years.⁵⁵

Along with the limited partnership approach there were other proposals for increasing private-sector involvement in military construction. In 1993, for example, the U.S. Army Community and Family Support Center contracted with the Logistics Management Institute (LMI) to study whether the Army could use its Morale, Welfare and Recreation (MWR) Non-Appropriated Fund (those moneys generated by the MWR program) to construct, operate, and maintain housing units owned by a private developer but used by soldiers. The LMI also examined the efficiency and cost-effectiveness of using a combination of private financing and the Non-Appropriated Fund to establish public-private ventures. The LMI recommended that the Army conduct some pilot projects at Fort Riley, Fort Stewart, and in Hawaii, to see which method worked best, although it recognized that the Army would need special legislative authority to conduct such experiments.⁵⁶

CONCLUSION

By the mid-1990s, then, several issues were clear. First, the military had a significant housing problem, in terms of both the number of houses that needed repair and the overall supply of housing necessary for the military population. Second, because the military became an all-volunteer force in the 1970s, the need to provide adequate housing was even more pronounced, since it affected whether or not personnel reenlisted. In trying to deal with these issues, the DOD had some important precedents (although some were unsuccessful), including privatization programs enacted in the 1940s, 1950s, 1980s, and 1990s. Any solution, however, needed congressional authorization before it could be implemented. Against this backdrop, the DOD began focusing its efforts in the mid-1990s on new legislation that would provide it with the ability to work with private developers in constructing military housing.

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54. *National Defense Authorization Act for Fiscal Year 1995, U.S. Statutes at Large* 108 (1995): 2663, 3050-3051; Bernard Rostker and Charles Nempfakos interview by Matthew Godfrey, 17 July 2007, Arlington, Va., Transcript, 13-14; and "Statement of Honorable Robert R. Pirie, Jr., Assistant Secretary of the Navy (Installations and Environment) Before the Subcommittee on Military Construction of the House Appropriations Committee on Military Construction, Family Housing, and Base Closure Implementation, March 2, 1995," www.lexis-nexis.com. Unfortunately, the legislative history of this act does not indicate which DOD or Navy officials were responsible for developing the limited partnership idea.
55. U.S. General Accounting Office, *Military Housing: Privatization Off to a Slow Start and Continued Management Needed*, Report No. GAO/NSIAD-98-178 (Washington, D.C.: U.S. General Accounting Office, 1998), 45-49.
56. Martina Carroll-Garrison, Information Paper, 8 April 1993, Uncatalogued Housing Materials, Research Collections, USACE Office of History.

FIGURE 2-1. Historic home that was renovated as part of privatization of Army housing at Fort Riley, Kans.

Courtesy of Picerne Military Housing.



CHAPTER TWO

The Passage of the Military Housing Privatization Initiative Legislation, 1995–1996

In order to solve its housing problems, the U.S. Department of Defense (DOD) was willing in 1994 and 1995 to explore new and creative solutions, but it lacked congressional authorization to do so. The DOD called for new legislation that would allow it to access a variety of ways to engage the private sector, believing that that was the best direction in which to move. At the same time that officials worked with Congress toward new legislation, the U.S. Army itself, anticipating the passage of such a law, examined various ideas of privatization, including the establishment of a nonprofit corporation that would act as a sort of housing authority. It finally settled on the Capital Venture Initiatives (CVI), a pre-Residential Communities Initiative (RCI) program by which the Army and private developers would work together to develop new housing and to operate and manage existing housing. It began making plans to initiate a pilot CVI project at Fort Carson, Colorado. By the time that President Bill Clinton

signed the *Military Housing Privatization Initiative* into law in February 1996, the Army was well down the road to privatization.

EARLY PROPOSALS FOR THE MILITARY HOUSING PRIVATIZATION INITIATIVE

By the mid-1990s, numerous studies had been completed addressing the military family housing situation in the United States. Several of these had concluded that privatizing at least some portion of the family housing function was essential, in part because it would cost the federal government billions of dollars to fix the problem on its own. In an era of deficit and defense spending reductions, that kind of money was not available. As part of the move towards privatization, Congress had included a provision in the *National Defense Authorization Act for Fiscal Year 1995* that allowed the U.S. Navy to enter into limited partnerships with private developers for housing construction. Congress would further explore these kinds of



FIGURE 2-2. Ted Lipham, one of the early leaders of Army privatization.

Courtesy of Ted Lipham.

options as it debated the *National Defense Authorization Act for Fiscal Year 1996*.

In the early 1990s, under the Engineering Strategic Studies Center of the U.S. Army Corps of Engineers (USACE), the Army had begun several initiatives to improve its understanding of how privatization might work. These efforts resulted in a four-volume report on the status of Army housing and recommendations for future actions. Acting on the request of Dean Stefanides, chief of Army Housing, Ted Lipham began investigating privatization measures. Lipham was the head of Army Family Housing's Business Occupancy Program (BOP), which tried to put into place more business-oriented procedures for family housing, including allocating funding to installations based on actual occupancy. According to Lipham, the initial investigations were intended to help the Army "to

get housing management 'ready' for future privatization."¹ For the next two to three years, Lipham remembered, "My whole time was consumed with trying to come up with a mechanism to privatize all the Army housing that we had."² As part of a larger DOD team, for example, Lipham went to examine the Australian Defense Housing Authority, which Australia had developed to solve its own military housing dilemma. Lipham's visit occurred as part of an Army Housing-sponsored exchange program, in which Army personnel went to Australia for six months while Australians came to the United States, to provide more information on the model. After studying the program, some within the Army (and within DOD, following briefings from Army officials) decided that it could be a viable option.³

Two recommendations came to the surface when Secretary of Defense William J. Perry in 1994 appointed a Defense Science Board Task Force on Quality of Life to examine, specifically, military housing, personnel deployments, and community and family services. Chaired by former Secretary of the Army John Marsh, the task force examined military housing, interviewing numerous soldiers and their families. In its final report, published in October 1995, the task force noted military members' perceptions that the quality of military life had deteriorated in comparison with past years, in part because of poor housing conditions. Therefore, the report recommended that the DOD undertake a "comprehensive restructuring of military housing" through several initiatives, including partnering with the private sector. Another suggestion called for the DOD to establish a Military Housing Authority along the lines of the Australian authority. That housing authority would serve as a nonprofit organization, managing all housing aspects through a governing Board of Directors, which was to consist of both military and civilian



FIGURE 2-3. Army family housing development at Fort Eustis, Va., prior to Army housing privatization.

Courtesy of Balfour Beatty Communities.

personnel. Under this program, members' housing allowances would be placed in a Military Housing Authority account (supplemented by congressional appropriations and contributions from private developers), which would then fund new construction, renovations, maintenance, and operations.⁴

Bernard Rostker, who was then serving as Assistant Secretary of the Navy for Personnel and who would later become Undersecretary of the Army, enthusiastically embraced the idea of a housing authority. Rostker actually pushed the Quality of Life Task Force to include the housing authority proposal, believing that entities such as the New York State Dormitory Authority and the Australian Defense Housing Authority held the answer to the U.S. military's housing problems. Such entities, he believed, allowed organizations to construct housing funded "on the basis of the future income stream that will be created by students living in those dormitories." The New York

State Dormitory Authority, for example, owned, operated, and maintained its housing, much as the proposed Military Housing Authority would. If something such as the Dormitory Authority "could get ahead of the power curve, unload the burden from the universities [which] never had much money, and make money," Rostker wondered, why couldn't the U.S. military?⁵ Others within the Office of the Secretary of Defense (OSD) were not so sure. They expressed outright opposition to the housing authority proposal because it would be a new way of doing business, drastically different from the usual Military Construction (MILCON) process. In the words of Dean Stefanides, then chief of Army housing, the Army "kept on getting beat up by everybody" because of its support for the proposal, even though the task force had recommended it.⁶

Along with the housing authority proposal, other initiatives were put forward to solve the



FIGURE 2-4. Dean Stefanides, Chief of Army Housing in the mid-1990s.

Courtesy of Dean Stefanides.

family housing problem. For example, Major General John H. Little, Assistant Chief of Staff for Installation Management (ACSIM), established an Army Science Board Independent Assessment panel toward the end of 1994 to evaluate housing privatization possibilities.⁷ The panel met throughout 1995 to discuss privatization. In one meeting in March of that year, Brigadier General Robert Herndon, director of facilities and housing, presented the ACSIM's family housing vision. According to the minutes of the meeting, Herndon stated that the Army's policy was "to develop innovative ideas to leverage limited resources."⁸ In order to leverage the resources, the assessment panel met with entrepreneurs and developers to discuss housing alternatives.⁹

On another front, in January 1995, the DOD put together a workshop on military housing

sponsored by the Urban Land Institute. At the workshop, participants from both the military and the private sector discussed various aspects of privatization, including which solutions were feasible and what obstacles could prevent privatization from succeeding. Potential problems included budget scoring (the process by which the federal government accounts for future spending) and the applicability of the *Davis-Bacon Act*, which mandated the wage rates that workers on government projects could be paid, as well as complex government procurement requirements. After addressing these topics, participants, according to one observer, expressed "optimism that solutions could be found."¹⁰

In the meantime, Congress too was exploring the idea of privatization. After becoming chair of the House Military Construction Committee in 1995, U.S. Representative Joel Hefley (R-Colorado) decided that another source of funding for family housing construction, renovation, and maintenance had to be found. He had one of his staffers, Philip Grone, begin looking into the privatization issue. When Grone and Hefley met with Secretary of Defense Perry, they became convinced that privatization was the route to take.¹¹

In March 1995, the House Subcommittee on Military Installations and Facilities of the Committee on National Security held hearings on H.R. 1529, a bill authorizing construction at military installations for Fiscal Year (FY) 1996. The bill included a provision (Section 2402) stating that "The Secretary of Defense may enter into agreements to construct, acquire, and improve family housing (including land acquisition) at or near military installations for the purpose of encouraging private investments, in the amount of \$22,000,000." Likewise, Section 2403 of the bill extended the limited partnership authority that the Navy had received in 1994 to the



FIGURE 2-5. Representative Joel Hefley of Colorado, pictured here during a 2003 visit to Incirlik Air Base in Turkey.

Courtesy of U.S. Air Force.

Army, Air Force, and Marine Corps, and it proposed the creation of the Defense Housing Investment Account and the Military Housing Investment Boards (one for each military department) to fund the limited partnerships.¹²

In the hearings on this bill, Hefley noted that the provisions were included because Secretary Perry was "struggling to do more with less." Perry's submitted budget for FY 1996, Hefley continued, reflected "the importance of quality of life programs particularly for improvements in military family housing." According to Congressman Hefley, the DOD had generated "much discussion about possible pilot programs and privatization initiatives in the area of military family housing," largely because "this is of great importance to Secretary

Perry." Other members of the subcommittee also favored new solutions. U.S. Representative Solomon Ortiz (D-Texas), who was instrumental in getting the limited partnership provision for the Navy in the 1995 *National Defense Authorization Act*, for example, explained that he wanted to "see new initiatives from the [DOD] that will seek innovative ideas and ways to fund living space for development."¹³

Testimony presented by DOD witnesses at the hearing indicated that the DOD was exploring various initiatives, not just the housing authority, in part because, as Deputy Assistant Secretary of the Army (Installations and Housing) Paul W. Johnson explained, "Maintaining quality housing for its soldiers and families is one of the Army's continuing

challenges.” According to Air Force Civil Engineer Major General James McCarthy, whatever new methods the DOD developed would have to deal with the scoring issue, which had killed the Section 801 and 802 programs since “scor[ing] the whole mortgage period in the first year ... in effect defeats the economics of it in terms of budget authority.” Deputy Assistant Secretary of Defense (Installations) Robert E. Bayer noted that the DOD was reviewing the Section 801 program, while also conversing with the private sector about the best tools to use. By the first of April 1995, Bayer declared, the DOD would be in a better position to explain exactly what direction it wanted to go.¹⁴

Yet when the subcommittee reconvened in April 1995, Congressman Ortiz noted that the DOD had not yet developed a firm proposal, although it was considering several possibilities. According to Assistant Secretary of Defense (Economic Security) Joshua Gotbaum, these included modifying Section 801 so that the DOD could sell on-base housing to a private entity; having the private entity renovate the housing, and then renting the housing back to DOD over time; and modifying Section 802 so that the private sector had some kind of insurance, such as having the DOD “put up a limited amount of cash up front,” to guard against base closures. Gotbaum noted that the DOD had created a “Housing Finance Tiger Team” (a tiger team is a group tasked with specifically examining an issue to discover all of the solutions and potential problems), including representatives from all of the military services, to identify possible tools, ensure that the tools would work, develop legislative initiatives, and simplify procurement. According to Gotbaum, the team had studied issues at four bases—San Diego, Keesler, Fort Hood, and Camp Lejeune—and met with “base personnel, base commanders, base

engineers, et cetera, to say what kind of housing do you need; and private developers to say, what kind of projects are you willing to build?” Based on the recommendations that the tiger team made, Gotbaum concluded that the DOD would provide a specific plan to Congress within a month.¹⁵

According to Don Spigelmyer, who served on the tiger team and helped draft the privatization legislation, the team “talk[ed] to financiers, developers, and property managers to find out what type of incentives they needed to become involved in privatizing the housing.”¹⁶ The team also examined the history prepared by William Baldwin of the U.S. Army Corps of Engineers’ Office of History of how private capital had been used to stimulate development under the Wherry, Capehart, Section 801, and Section 802 programs.¹⁷ This study, together with other pieces Baldwin wrote surveying the history of peacetime housing in the Army, provided valuable lessons to the tiger team on the problems encountered in the past when private developers were called upon to build family housing. After studying these topics, the team decided that the DOD, in the words of Gotbaum, should “essentially polish up mostly authorities that we already had in law and get the ability to use them in conjunction with each other.” The DOD also needed to ensure that it had the capabilities to allow private developers to own and manage its housing inventory.¹⁸

The Military Family Housing Revitalization Act

The DOD transmitted draft legislation implementing the tiger team’s recommendations to the Senate and the House on May 8, 1995. Judith A. Miller of the DOD’s Office of General Counsel notified Congress that the DOD’s proposal would give it “authority to obtain new and improved



FIGURE 2-6. Pre-privatization family housing in the Santa Fe neighborhood of Schofield Barracks, Hawaii.

Courtesy of Lend Lease.

family housing and supporting facilities for the armed forces using private capital and expertise.” The DOD considered the legislation “of great importance,” indicating as well that it was “in accord with the program of the President.”¹⁹

The proposal, officially entitled “The Military Family Housing Revitalization Act of 1995,” contained several provisions. It provided the DOD with the authority to out-lease or sell land under its control, something that the DOD estimated would result in significant reductions in project costs. The legislation also established the Family Housing Improvement Fund, which would be used by the DOD as the funding mechanism for the privatization partnerships envisioned by the legislation. This fund would consist of money transferred by the Secretary of Defense out of DOD-appropriated housing funds (after reprogramming approval from the Congress), as well as any income

obtained from the leasing or conveyance of property under the terms of the act. Congress could also appropriate money specifically to the fund.

The proposed legislation included authorization for the Secretary to use “direct loans, guarantees, insurance, or other contingent payments to owners or mortgagors or assignees of family housing.”²⁰ The Secretary also had the authority to enter into home leases and to make payments to developers when the housing allowance did not cover the cost of housing. The guarantees would be used to cover contingencies such as base closures or major deployments or realignments of troops, not for general market conditions, construction mistakes, or poor management. The draft legislation also allowed the Secretary to enter into investments with “nongovernmental entities,” such as “limited partnership interests, stock, debt instruments, or a combination

thereof,” as long as such investments did not exceed 35 percent (later 33 percent) of “the capital costs of an acquisition or construction project.”²¹ This provision basically extended to the other military services an authority that the Navy already had but had not yet used.

In its explanation of the proposal, the DOD noted that the legislation “would authorize a return to the successful policies that built so much of the current inventory,” namely the “private-sector financing and commercial construction processes” of the Wherry and Capehart programs.²² In the words of Secretary Perry, the legislation would give the DOD “the flexibility to provide for our forces,” while also allowing it, “with the help of Congress and the private sector, to solve a 30-year problem in 10 years.”²³

On May 15, 1995, Assistant Secretary Gotbaum formally presented the proposed legislation to the Senate Subcommittee on Readiness and the Subcommittee on Personnel, both part of the Committee on Armed Services. However, Gotbaum talked about the legislation only in generalities, explaining that the “approach” was to partner with the private sector to “encourage housing development” and maintenance; to build these homes according to commercial standards; to contribute land or cash as the government’s investment in the projects; and to “commit to future payments in exchange for development today.”²⁴ He did not discuss the specific guarantee, investment, or leasing authority in the legislation, although he did explain that the DOD would test its privatization program through pilot projects in order to investigate which approaches worked and where.

U.S. Senator John McCain (R-Arizona), who sat on the Committee on Armed Services, questioned the need to approve new authorities. Could the DOD not use the old Section 801, 802,

and 2667 authorities, for example? Gotbaum answered that many of these authorities “had constraints within them which, although they were consistent with commercial practice then, are not consistent with commercial practice today.” Budgeting procedures in the government had changed as well, as had housing markets and the sophistication of developers. Specifically, Section 801 and 802 authorities were not applicable because: they could not be used in combination; the authorities contained limitations that were inconsistent with private-sector practices and requirements; and in some cases, Section 801 and 802 authorities failed to take into account that, “because on-base housing is fully subsidized, private replacements might require subsidies as well.” Accordingly, as Gotbaum pointed out, the DOD wanted to “modify existing authorities to correct these shortcomings, and thereby permit a real test of private-sector capabilities.”²⁵

PASSAGE OF THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 1996

Based on the provisions spelled out in the DOD’s proposal, the House Committee on National Security reconfigured H.R. 1530 (the national defense authorization bill for FY 1996). These recommended provisions were incorporated as Title XXVIII—General Provisions, Subtitle A—Military Construction Program and Military Family Housing Changes. Several sections of the bill amended U.S. Code Title 10, Chapter 169, to allow the Secretary of Defense to utilize the authorities in the legislation to improve housing on military installations. In addition, the bill revised some of the authorities to allow for “phased occupancy of completed family housing units.” It also gave the Secretary authority to “lease or sell land, housing,

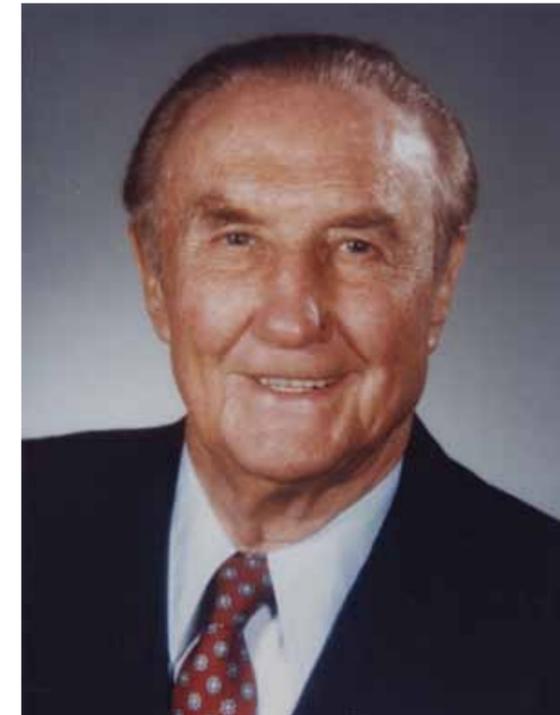


FIGURE 2-7. U.S. Senator Strom Thurmond, who sponsored the Senate’s National Defense Authorization Bill for Fiscal Year 1996.

Courtesy of U.S. Senate Historical Office.

and ancillary supporting facilities” under his or her control in order to obtain additional and renovated housing.²⁶

The new bill also proposed the creation of the Family Housing Improvement Fund and provided the Secretary of Defense with the authorization to enter into guarantees, investments, and leases with private developers. According to the proposal, the authority to use limited partnerships would expire “five years after the date of the enactment of the *National Defense Authorization Act for Fiscal Year 1996*,” and the Secretary was instructed to provide a report to Congress by March 1, 2000, regarding the effectiveness of the legislation in providing housing to members of the armed forces and their dependents.²⁷

In the meantime, the Senate was developing its own national defense authorization bill, introduced as S. 1026 by U.S. Senator Strom Thurmond (R-South Carolina) on July 12, 1995. The bill contained provisions similar to those in H.R. 1530, as it proposed the use of a combination of authorities to entice private developers to partner with the military. The limited partnership authority would be expanded to all of the military services, and the Secretary of Defense would be able to enter into contracts for leasing, including investing up to 35 percent of the capital cost in nongovernmental organizations, in order for acquisition, construction, improvement, or rehabilitation to take place. In addition, the law would establish the Department of Defense Housing Improvement Fund, which would operate in a similar way to H.R. 1530’s Family Housing Improvement Fund.²⁸

The National Defense Authorization Act, of which the *Military Family Housing Revitalization Act of 1995* was just one component, had a host of provisions dealing with funding for the DOD, including establishment of a ballistic missile defense system. Because of this, the bill was controversial and various other pieces of partisan legislation were introduced.²⁹ After three months of work, the conference committee issued its report, which essentially reorganized and consolidated the sections on military family housing in S. 1026. All of the items pertaining to housing privatization were grouped under Subtitle A—Military Housing Privatization Initiative of Title XXVIII—General Provisions. Aside from adding a few definitions, however, the subtitle contained essentially the same provisions as S. 1026. Yet instead of merely establishing the Department of Defense Housing Improvement Fund (which the new bill renamed the Department of Defense Family Housing Improvement Fund), the new bill also set up the

Department of Defense Military Unaccompanied Housing Improvement Fund, to be administered separately from the Family Housing fund.³⁰

Despite the name change, the composition of the Family Housing Improvement Fund was the same as it had been in S. 1026, although the new bill specifically stated that the fund would be used “to carry out activities in this subchapter with respect to military family housing, including activities required in connection with the planning, execution, and administration of contracts entered into under the authority of this subchapter.” Secretaries of individual services would be required to transmit to Congress project reports of every contract that the services entered into for the construction of family and unaccompanied housing, as well as “each conveyance or lease proposed” under the law. Annual reports would be required, just as they had been in S. 1026, as would a final report after the authorities had expired.³¹

The bill also established a cap on spending at \$850 million, and a cap on the Unaccompanied Housing Improvement Fund of \$150 million, totaling \$1 billion. The cap was, in essence, the legal limit on the amount of money the military could spend on privatization of housing under the MHPI authorities. Congress included the cap in the legislation as a way to limit federal spending in case the privatization program failed, private developers started accruing unreasonable profit margins, or the money was being used inappropriately. Several years later, the funding caps almost brought the entire housing privatization program to a halt when the services edged close to exceeding them. (For additional details on the spending cap and congressional scoring, see Chapter 8.)

After considering the conference committee’s report, the House of Representatives agreed to the changes and passed H.R. 1530 on December 15,

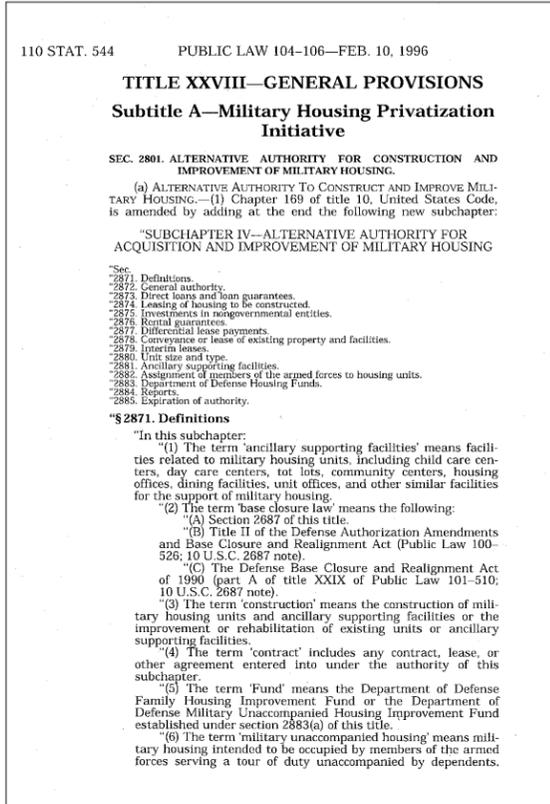


FIGURE 2-8. First page of the Title 28 section of Public Law 104-106, which created the Military Housing Privatization Initiative. U.S. Statutes at Large.

1995, and the Senate followed suit on December 19, 1995.³² President Bill Clinton, however, vetoed the bill on December 28, 1995. He cited a variety of reasons for his decision, including the bill’s requirement to build a ballistic missile defense system by 2003 that, in his mind, violated the Anti-Ballistic Missile Treaty of 1972. Even with this veto, he noted that H.R. 1530 included “a number of important authorities for the Department of Defense,” such as “the improvement of housing facilities for our military personnel and their families.”³³ Perhaps predictably, Republicans opposing the veto focused on the quality of life initiatives that the bill contained, asserting that Clinton’s veto meant that the President did not value the military

or its personnel. In the words of U.S. Representative Floyd Spence (R-South Carolina), the legislation was “about improving the quality of life of the All Volunteer Force,” and Clinton’s decision to “risk these quality of life provisions [was] incomprehensible.” Despite Republican objections to the veto, the party could not generate enough support in the House to override it. That meant that a new bill had to be passed.³⁴

As the House began its deliberations on another bill (S. 1124), Congressman Hefley expressed his hope that the committee would not revisit the sections pertaining to military family housing, as neither side had objected to those provisions. Congressman Spence assured Hefley that the deliberations “would not get down to housing, I am sure, because the President in his message to us did not say anything to us about the housing [provisions] that we passed.”³⁵ Indeed, the housing privatization measures in the proposed bill had bipartisan support. Individuals such as U.S. Senator Jesse Bingaman (D-New Mexico), who castigated much of the bill, stated that its only good provisions were those dealing with military pay and family housing. Likewise, Senator Bob Dole (R-Kansas), who staunchly supported the entire bill, lauded its housing privatization component, which he believed would enable the DOD to use innovative solutions to solve the family housing problem.³⁶ As Hefley remembered it later, “There was no partisanship in this at all”; privatization was “a very bipartisan effort.”³⁷

When the conference committee issued a report on S. 1124, the language pertaining to the military housing privatization initiative in the new bill was exactly the same as it had been in the earlier, vetoed bill. The House agreed to the conference report and passed S. 1124 on January 24, 1996, and the Senate followed suit on January 26, 1996.

On February 10, 1996, President Bill Clinton signed the legislation into law, and it became the *National Defense Authorization Act for Fiscal Year 1996*.³⁸

EARLY INITIATIVES UNDER THE MHPI LEGISLATION

To coordinate privatization efforts across the services, Secretary Perry established the Housing Revitalization Support Office (HRSO) in October 1995. This office consisted of representatives from each of the military services, as well as from OSD, all of whom were knowledgeable about housing and real estate matters. Envisioning the HRSO, in the words of Deputy Assistant Secretary of Defense (Installations) Robert Bayer, as the “focal point of knowledge and expertise necessary to implement” the privatization program, Perry gave the HRSO the major task of discovering, through a system of pilot projects, which authorities would work and where.³⁹ According to Joseph Sikes, who became director of the HRSO in November 1996, the OSD had merely “[thrown] everything up against the wall that would stick” and had Congress pass a “big bag full of authorities.” It was up to HRSO and the services to determine how to use the authorities to improve housing.⁴⁰ HRSO and the services also assumed responsibility for training housing personnel in real estate and financial issues and acted as the main developer of privatization policies, including those involving legal, financial, and operational questions.⁴¹

HRSO thus began, working with each military service to determine valid pilot projects for the authorities. The DOD envisioned several steps in the privatization process. First, each individual service would develop a list of installations with housing deficits or renovation needs and provide it to the HRSO. The HRSO, in tandem with the service’s officials, would then visit the posts and decide,



FIGURE 2-9. Don Spigelmyer, one of the main forces behind the Capital Venture Initiatives program and future executive director of the RCI Program, June 2003.

Courtesy of RCI Office.

first, whether privatization was feasible and, second, which of the tools from the MHPI legislation would work best. If privatization was feasible and the OSD approved the project, HRSO would hold an industry forum at the installation to engage private developers. The DOD would then develop a Request for Proposal (RFP), notify Congress of its intent to issue the RFP, and then publish it after receiving congressional approval.⁴² After evaluating responses to the RFP, the service would select a development company that would then assume responsibility for the housing. In addition to whatever MHPI tools were used, funding for the endeavor would come from service members using their Basic Allowance for Housing (BAH) to pay rent to the developer. Deputy Assistant Secretary Bayer realized that the whole privatization process was a significant “cultural change” for the DOD

because the military services had not worked with these types of authorities or the private sector in this way before, and he admitted in March 1996 that the DOD was still “working diligently to find our way in this new culture.” It was imperative that it do so, as, according to Bayer, the DOD would have to spend \$20 to \$30 billion over 30 to 40 years to solve its housing problem—money that the Department did not have and could not hope to attain in the future. Therefore, the DOD had to take an innovative approach.⁴³

By March 1996, just a month after President Clinton signed the *National Defense Authorization Act*, the DOD had already begun heading down the privatization road. Bayer reported to Congress that the HRSO had identified 14 potential pilot sites across the services to test the authorities.⁴⁴ Fortunately, the Army had a leg up on privatization because it had established the Capital Venture Initiatives (CVI) office a year ahead of the HRSO. As Don Spigelmyer, future executive director of the RCI Program, explained, “The early involvement of the CVI Team enabled the Army to take and maintain the lead in privatization over the other services.”⁴⁵

As has already been discussed, in 1995, at the request of Dean Stefanides, Chief of Army Housing (a division within the Army’s Office of the Assistant Chief of Staff for Installation Management), the Army tasked Don Spigelmyer, who had worked on the OSD tiger team and on other privatization studies, to establish what Spigelmyer called a “Capital Venture Initiatives” team to implement privatization. The name of the program, according to Spigelmyer, was meant to emphasize the Army’s intent to use private capital to rehabilitate its housing. Initially, the team was just, in Spigelmyer’s words, “a lean, mean, 3-person, temporary cell.”⁴⁶ Eventually, it evolved into a



FIGURE 2-10. Pre-privatization family housing at Fort Belvoir, Va.

Courtesy of Clark Realty Capital.

more established presence, consisting of representatives from the Army, the U.S. Army Corps of Engineers, and private financial, business, and real estate consultants. It worked to develop the Army’s privatization policy and procedures and, in coordination with the HRSO, to test the various authorities at pilot sites.⁴⁷

To select the pilot sites, Deputy Assistant Secretary of the Army (Installations and Housing) Paul Johnson explained, the CVI team requested that the Army Major Commands suggest installations where the CVI program could work. The Army especially sought those installations that had both housing deficits and good working relationships with the surrounding community.⁴⁸ According to Congressman Hefley, officials were also looking for bases where housing could be built to community standards “on the fringe” of the installation. That way, Hefley explained, “You could carve it out and it could be just another

housing development within that community if the base ever closed.”⁴⁹

Potential pilot sites included Fort Carson, Colorado; Fort Hood, Texas; Fort Bragg, North Carolina; Fort Campbell, Kentucky; Fort Huachuca, Arizona; Fort Eustis, Virginia; and Fort Sill, Oklahoma. As the Army evaluated these sites, it used the same procedures that the HRSO had recommended, especially focusing on meeting with community members and private developers at each site. “Our experience to date,” Johnson stated, “has shown that the private sector is very interested in participating in a partnership with the Government to acquire or renovate housing.”⁵⁰ However, major problems existed. For one, as Lipham explained, Army installations were reluctant to jump on the CVI bandwagon. Installation staffs were concerned about losing their jobs and installation commanders were concerned about losing control of

their family housing assets. In essence, Lipham related, “Nobody wanted to be involved.”⁵¹

Given these concerns, the CVI program ended up selecting as its initial housing privatization effort a pilot project at Fort Carson, Colorado. At Fort Carson, the CVI team found an installation in desperate need of new housing, a highly supportive community outside the base, and a commanding officer, Major General Thomas Schwarz, who was receptive to family housing privatization. In his desire to obtain better quality housing for his soldiers, Schwarz pushed for privatization even though a partnership with an outside developer meant that he would be giving up some of the control a commanding officer traditionally held on an Army installation. In September 1995, the CVI staff began working directly with Schwartz and his staff on an RFP for the selection of a private developer to partner with the Army at Fort Carson. During that time, the CVI-Fort Carson work group determined that certain aspects of any privatization plan were essential to making Army housing privatization a reality. For example, the CVI-Fort Carson planners identified two important prerequisites to the development of privatized Army housing at Fort Carson: first, the necessity for a privatization project to encompass all of the family housing on the base, and, second, the financial importance of tying rent to a soldier’s BAH. These principles were enshrined in the eventual Fort Carson RFP and subsequently became common elements of almost all CVI and RCI projects.

Budget Scoring

Another early stumbling block to DOD housing privatization was the Office of Management and Budget’s (OMB) budget scoring of the program. Budget scoring or, in the words of one publication, “the percentage of dollar value, from 0% to 100%, of

a project’s cost that must be allocated to an agency’s budget in a given fiscal year,” was a difficult issue in the first years after passage of the Military Housing Privatization Initiative.⁵² Because the authorities in the 1996 legislation all committed government resources in one form or another, the OMB had to budget, or score, those monetary commitments. Scoring could be explained in this way:

Similar to the credit scoring performed by private sector lenders such as mortgage and credit card companies, OMB scoring attempts to quantify the risk exposure faced by the Federal Government associated with utilizing the MHPI authorities. This is primarily an effort to quantify a future contingent liability to the Federal Government.⁵³

The DOD and Congress were both aware that the Section 801 and 802 programs were no longer viable, in part because OMB scored all of the project costs in the first year. Doing so negated any kind of economic benefit in doing the project over time. If the OMB had maintained that stance in relation to privatization projects, the DOD would have had a tough road. In the months following the passage of the legislation, it appeared that the OMB would not soften its stance. As Deputy Assistant Secretary Johnson related, all the considerations that had caused the costs of MILCON projects to escalate—such as the Federal Acquisition Regulation and the OMB’s scoring rules—were still in effect.⁵⁴

Throughout 1996 and the first part of 1997, the DOD wrestled with the OMB over the scoring issue. According to Joseph Sikes, director of the HRSO, who dealt with the OMB on many of these issues, there were several OMB officials who believed that any privatization proposal needed to be scored at 100 percent in the first year of

the program. If that happened, Sikes and others believed, “the program would die,” much as the 801 and 802 authorities had perished. Finally, the debate on the issue rose to the director of OMB, Franklin Raines, and the Secretary of Defense (Secretary Perry until January 1997, when William Cohen replaced him). As Sikes remembered, “we were exchanging memos back and forth, first between the Deputy Secretary [of Defense] and the Deputy Director [of the OMB] and [then between] the Director and the Secretary of Defense.”⁵⁵ OMB’s Deputy Director refused to budge on the issue, but Raines, who was a former Fannie Mae chief executive officer, finally stepped in, according to one observer, after Vice President Al Gore requested that the OMB “make it happen.”⁵⁶

On June 25, 1997, Raines sent a memorandum to Secretary of Defense Cohen, transmitting scoring guidelines for projects using the MHPI authorities.⁵⁷ This memorandum, and others exchanged between Raines and Cohen, became the basis of the scoring guidelines used in housing privatization. The guidelines dealt with the four different privatization tools outlined in the MHPI legislation: investments, differential lease payments, loan guarantees, and direct loans. The guidelines established a distinct set of scoring criteria for each of the tools.⁵⁸ According to Sikes, these new scoring guidelines enabled the privatization program to proceed.⁵⁹

Military Housing Authority

As the DOD and OMB worked out the scoring issues, and as the HRSO and the Army’s CVI team tested options, the OSD considered implementing the Quality of Life Task Force’s recommendation that the DOD establish a Military Housing Authority. Deputy Assistant Secretary Bayer told Congress in March 1996 that the DOD wondered whether a

Military Housing Corporation in each service could “improve our housing situation even more rapidly.”⁶⁰ In fact, the OSD had established a Defense Housing Authority Working Group in 1995 to investigate this possibility, while within the Army the OACSIM had already developed a proposal to create an Army Housing Authority.⁶¹

The Army had several ideas about the form that the housing authority would take, but all of the ideas stemmed from the service’s desire to privatize housing in a way that still allowed installation commanders to maintain some control. One proposal was to establish an Army Housing Corporation, patterned after the Australian Defense Housing Authority. According to this proposal, the corporation would work in this way:

Army family housing would become a Government Business Enterprise (GBE) under the Secretary of the Army to: improve the quality of housing for families; meet the operational needs of Department of the Army; and operate as a business and “break even.” Assets would be transferred to AHA, and occupants would forfeit housing allowances as they do now.... Army would be authorized to sell, buy and lease housing assets, and enter into joint-ventures to develop housing areas. A Board of Directors would be established and be responsible for AHA activities. The Board would include senior officers from appropriate Army agencies and the private sector. Housing management would be decentralized, i.e., maximum authority delegated to installation managers. Commanders will still set requirements and priorities of assignment.⁶²

The Army saw this as a viable way to engage the private sector, as it would be “very attractive”

to the financial community. It would also allow commanders at individual installations to continue to manage housing. However, the Army estimated that using the corporation to fix the family housing problem would cost the Army 15 percent more than the BAH of the soldiers occupying the housing, making it more costly than the traditional method of military construction. The Army also did not know how the OMB would score the ventures of such a corporation.⁶³

After receiving feedback from the Army Secretariat in 1996, Army Family Housing leaders molded the Army Housing Corporation idea into a proposal to create a nonprofit entity to govern Army housing, such as a Non-Appropriated Fund Instrumentality. As foreseen by the Army, the nonprofit organization would receive funding from the proceeds of military housing and land sales. It could also “borrow against the property” in order to fund renovations, and it could receive subsidies from either the Army or the DOD. “The entity would be able to buy and sell housing units to meet changing military housing requirements,” the proposal continued, and it would rent and operate the housing, “using commercial property management and procurement practices.”⁶⁴ The nonprofit route would go beyond the CVI program to “full privatization” (whereby the Army would divest all of its housing functions to private entities), and it appeared to be a good compromise between the Secretary of the Army, who wanted the Army to divest itself of housing responsibilities, and Army commanders, who strongly advocated that installation commanders continue to control housing on their bases.⁶⁵ Ultimately, however, the OMB ruled in 1996 that a housing authority was to be considered a governmental entity. As a result, its actions had to be scored up front. That led Congress to quash the idea.⁶⁶

CONCLUSION

When the Military Housing Privatization Initiative became law on February 10, 1996, the Army was “ahead of the curve” compared to the other services in the DOD housing privatization effort because the service had already produced several initiatives that mapped out how best to use the authorities. But the real test would come when the Army attempted to fully privatize housing on an installation by way of a pilot project. Although the Army had identified seven potential pilot sites for its CVI program, it encountered some opposition from installation leadership to actually implementing privatization. Yet one installation—Fort Carson—was ready to take the privatization journey, which would test whether or not the concept could actually work.

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FIGURE 3-1. Blackfoot Hill Village, a new RCI development at Fort Carson, Colo., ca. 2001.

Courtesy of RCI Office.



CHAPTER THREE

The Fort Carson CVI Pilot Housing Project, 1994–1999

As Congress began debating the *Military Housing Privatization Initiative* (MHPI) legislation and the U.S. Army started developing the Capital Venture Initiatives (CVI) program in 1994, plans for privatizing housing at Fort Carson in Colorado Springs, Colorado, were already underway. In fact, the genesis of the housing privatization program at Fort Carson predated both CVI and the introduction of the MHPI legislation. In 1994 and early 1995, Fort Carson staff and Colorado Springs community and business leaders began formulating a mechanism they hoped could utilize local private-sector construction and management resources to tackle the poor condition and maintenance backlog of the garrison's family housing. These early steps in the direction of housing privatization helped Fort Carson become the first pilot project for the Army's CVI program. In these initial efforts in Colorado Springs and in the eventual implementation of CVI at the

installation, several important success factors emerged, including strong individual leadership from Fort Carson officials, a high degree of local community involvement, and the impact of fluctuations of the regional economy.

In the early 1990s, Fort Carson was a 10,000-troop garrison in Colorado Springs, a metropolitan area of almost 400,000 residents at the foot of Colorado's spectacular Front Range. In 1942, the Army had opened a training base named Camp Carson on the site just one month after the Japanese attack on Pearl Harbor. It became a permanent installation in 1954 and was renamed Fort Carson. Partly because of the long life of the installation, the local Colorado Springs community strongly supported the military, a support reinforced by the fact that the city was also home to the U.S. Air Force Academy, Peterson Air Force Base, and the North American Aerospace Defense (NORAD) facility inside Cheyenne Mountain. Cooperation of the area's civic, business, and

political leaders with the Army proved to be one of the keys to the success of the pilot effort.

Within the Army, Fort Carson was known for its stunning views, mountain air, and decrepit housing facilities. In 1994, when the first privatization discussions at Fort Carson began, there were 1,823 family housing units on the base, 1,599 of them dedicated to the families of enlisted soldiers. The existing family housing structures dated from three separate periods of building financed by Army military construction funds: 1957–1958, 1965, and 1971–1974.

When the final rounds of the Army's Base Realignment and Closure (BRAC) program—a cost-cutting measure that aimed to close or shrink a number of bases throughout the United States and Europe—targeted Fort Carson for possible shutdown, the area's business and civic leaders and their representatives in Congress coalesced into a powerful political force in an attempt to prevent base closure. As former U.S. Representative Joel Hefley (R-Colorado) said, "In a town like Colorado Springs, you naturally are going to be concerned about your biggest employer and your biggest base, and that's what it was."¹ Fort Carson was, at the time, one of the top two employers in the state of Colorado. Colorado Springs leaders, Fort Carson staff, and Congressman Hefley brought members of Congress and high-level Army officials to Fort Carson to see the specific training resources—particularly the Pinon Canyon Maneuver Site south of Colorado Springs—that the base had to offer. Although it is difficult to isolate the role of the community's "Keep Carson" campaign in preventing BRAC closure, the campaign successfully brought the leadership, brain power, and financial resources of the Colorado Springs area together in a common effort to assist Fort Carson. As a result, when a new opportunity to support

the base—namely family housing privatization—arrived, many of the same people were poised to collaborate once again.

By the spring of 1995, Fort Carson's long-term status was very different from what it had been in the early 1990s. Instead of threatening to close the installation, the Army's force realignment plan moved troops from other bases to Carson, including the Third Armored Cavalry Regiment from Fort Bliss, Texas. Jerry Stafford, at the time a first sergeant with that outfit, described the restructuring as "a whole regiment of about 5,500 soldiers plus families doing a move lock, stock, and barrel."² Although the realignment helped ensure the future stability of the installation, it strained an already inadequate housing situation. According to Stafford, the regiment was told that housing would be available when it arrived at Fort Carson. Yet when the regiment arrived, the Army Housing Office had little, if anything, to offer, either on the base or off.³

Two Army officials became especially concerned about the family housing situation: then-Major General Thomas Schwartz, Fort Carson's Installation Commander, and General Dennis Reimer, Commander of Forces Command (FORSCOM) from 1993 to 1995 and Army Chief of Staff from 1995 to 1999. According to several individuals, General Reimer was the instigator of the privatization idea at Fort Carson, while others believed that Schwartz and his chief of staff, Colonel Tony Koren, were equally important catalysts. Reimer was intimately familiar with the housing situation at Fort Carson because he had worked there as a major in the 1970s and served as the base commander from 1988 to 1990. In the mid-1990s, Reimer consulted with Schwartz about housing improvements and wondered whether the Army could collaborate with the private sector, particularly local developers, property managers,

★ ★ ★ ★ ★ Base Realignment and Closure (BRAC)

In October 1988, Congress enacted the *Base Closure and Realignment Act*. According to the Department of Defense (DOD), this law was intended to allow the DOD "to more readily close unneeded bases and realign others to meet its national security requirements." The act stemmed from the ending of the Cold War in the late 1980s, which left the United States with a smaller force and excess facilities in both the United States and in Europe. Under BRAC, the DOD determined whether to close, realign (which often meant downsizing), or expand installations, based on a process that "evaluates its current stationing plan against multiple variables: the changes in threat, force structure, technologies, doctrine, organization, business practices, and plant inventory." The law created BRAC commissions to "recommend specific base realignments and closures to the President, who in turn sent the commissions' recommendations with his approval to the Congress."

Five separate rounds of BRAC installation closures and reductions took place over the course of 18 years: 1988–89, 1991, 1993, 1995, and 2005. The 1995 BRAC decisions impacted Fort Carson, Colorado, and the plans the Army had launched for privatizing family housing on the installation. Fort Carson appeared on the tentative list of 1995 BRAC closures, but in early 1995 Secretary of Defense William J. Perry announced that the original list of base closures would be scaled back because the military services argued that following through on all of the scheduled cuts, "would be too difficult and too costly in the near term." In particular, the Army contended that it could not afford to lose Fort Carson and Fort Riley, Kansas, two installations that were home to the Army's largest training grounds. Both installations were eventually removed



FIGURE 3-2. Armored cavalry troops during maneuvers at Fort Carson, 1999.

Courtesy of U.S. Department of Defense.

from the closure list. In fact, instead of closing Fort Carson, the final BRAC decision enlarged the installation. A Green Beret unit of close to 1,000 soldiers was relocated from Fort Devens, Massachusetts, to Fort Carson when the final BRAC assignments closed the New England base.

During the final round of BRAC closures scheduled for 2005, the RCI Program Office worked closely with the U.S. Army Corps of Engineers (USACE) Norfolk District and its real estate team to mitigate the effects that BRAC might have on Army family housing privatization. In November 2005, Fort Carson conducted a new Housing Market Analysis in response to the restationing being implemented as part of BRAC 2005. The study revealed that, because of troop additions to Fort Carson, the project needed another 1,023 new housing units. However, the private-public partnership could not arrange financing for more than 650 additional homes. So in coordination with the RCI Program Office in Washington, D.C., the Army decided that Phase II of privatization at Fort Carson would consist of building 404 new units by February 2010 to fill that need.



FIGURE 3-3. General Dennis Reimer, FORSCOM Commander and U.S. Army Chief of Staff, championed the privatization of family housing.

Courtesy of U.S. Department of Defense.

and construction firms, to tackle the housing and maintenance shortfall at Fort Carson.⁶ According to Tom Kraeer, who was a member of the inaugural CVI team that worked on the Carson project, the show of support from Reimer and Schwartz was unusual, as the CVI staff generally experienced resistance from installation commanders, who did not want to “give up control” of housing. Reimer and Schwartz “somehow got past all that,” Kraeer remembered, “and became excited about doing it.”⁷

Regardless of who started the housing privatization ball rolling at Fort Carson, all of those involved at the outset agreed on one thing: the existing housing procurement system that kept soldiers and their families in miserable living conditions was in dire need of change. Colonel Koren characterized the housing at Fort Carson as “probably as bad as any post that I had seen in the U.S.... [and] there weren’t any real possibilities of

the government fixing it.”⁸ General Schwartz said the condition of Fort Carson’s housing was so bad “it was almost criminal.”⁹

Three factors lay behind Fort Carson’s development of a privatization model ahead of other bases with similarly poor housing conditions. The first was the location of the base in a growing urban center amid a changing regional economy, a situation that especially had an impact on the area’s real estate market. The second was the long-term involvement of the local civic and business communities in looking out for the welfare of Fort Carson. The third was the strong support of Army staff members who were willing to take the initiative to make unconventional changes.

Colorado Springs’ real estate market had a significant impact on the development of privatization. By 1995, more than 3,700 families sat on the waiting list for family housing units at Fort Carson, with an average wait time of more than 32 months. As with most installations, the majority of soldiers under these conditions had to obtain housing off post. Finding affordable housing was not a problem during the late 1980s and early 1990s, when a recession in Colorado Springs meant that “the vacancy rate was in double digits ... and landlords offered many incentives such as free utilities in order to fill apartments.”¹⁰ But as the regional economy began to grow and then flourish in the mid-1990s, off-post vacancy rates plummeted to approximately two percent while the average monthly rental rate jumped by 50 percent. The scarcity of rental units put private rental rates for two- and three-bedrooms apartments, the size most desired by Army families, well beyond the reach of most enlisted soldiers’ Basic Allowance for Quarters (BAQ) and Variable Housing Allowance (VHA).¹¹

Confronted with these problems, General Reimer called for a start to housing privatization

in his January 10, 1995, address to the Colorado Springs Chamber of Commerce:

I have challenged Fort Carson to be the model for the Army and charged them with the responsibility of developing privatization initiatives to their full potential. I have no idea where this will lead, but I believe it can be a win-win situation.... Is there a program whereby we could enter into an agreement with realtors off post to turn over our on-post housing and let our civilian partners run it, as well as build additional housing? I would like to explore this a little to see what kinds of options are available to us. We need some fresh thinking on this issue because it is an area we have to solve quickly.¹²

The Chamber of Commerce audience listening to Reimer’s address included some of the same people who had organized the effort to keep Fort Carson open during the period of BRAC closures. By this time in early 1995, they were ready to turn their attention to solving the family housing dilemma at Fort Carson.

Shortly after Reimer’s presentation, General Schwartz moved into action. He assigned his chief of staff, Colonel Koren, to gather information and lay out some preliminary paths to advancing the privatized housing concept. Colonel Koren researched possible strategies and investigated the legal issues, Department of Defense (DOD) policies, and military privatization precedents. He also examined the U.S. Navy’s recent privatization efforts and the 2667 program. These programs, however, generally were either off base or conducted on a much smaller scale, so that they were not applicable to Fort Carson, where the evolving privatization plan called for incorporation of all

housing on the installation, including both new units and existing structures. Koren said that he realized that the Army needed to face building a privatization program “from the ground up and we figured that a blank sheet of paper and pen was probably as powerful a tool as we could get.”¹³

With General Schwartz’s approval, Koren put together a work group that became the Fort Carson Affordable Housing Program (FCAHP) team. This team consisted of Army representatives, as well as prominent members of the outlying Colorado Springs community, representatives of El Paso County, and private developers. According to General Schwartz, these were “people who believed [in] and loved the military and understood the plight of the soldiers.”¹⁴ In early 1995, the workgroup formulated a skeletal outline of a privatization plan and began preparing a proposal for Army officials.

While this work was occurring, George Georgalis, FORSCOM Housing representative, led a group of DOD officials visiting Colorado Springs in March 1995 for meetings to “coordinate capital venture and privatization initiatives with [the] Fort Carson command group” and with members of the Colorado Springs business community. Colonel Koren, Garrison Commander Colonel Mike Hess, and other Fort Carson officials were present for the meetings, as were Jim Palmer (representing the Colorado Springs Chamber of Commerce), Tom Schmidt (representing the city’s Economic Development Council), and Dick Sullivan of the El Paso County Housing Authority. Georgalis reported that the participants “developed concept, process, and milestones for the Fort Carson housing initiative.”¹⁵

The meeting participants developed a conceptual framework for privatization that included creating a partnership among Fort Carson, Colorado Springs, and El Paso County to oversee the process and explore how private developers could

best become involved.¹⁶ The partnership was envisioned as a vehicle that could work through the local government to find funding and contract with a developer to do the construction work. Ideally, the developer would be a local entity that had previously worked with the Army.¹⁷ The meeting participants also discussed other key programmatic elements required to entice private companies to partner in the venture, such as obtaining DOD “seed money,” long-term land out-grants, and government mortgage guarantees.¹⁸ As initially envisioned, the partner entity could begin work under the authorities found in Section 2877 (Limited Partnership with local government) or Section 2879 (Co-insurance) of Title 10 in the U.S. Code, to contract with a developer to construct 800 new family units and renovate 654 existing units. The partner would also provide financing, maintenance, and management of the housing units for a period of up to 50 years.¹⁹

The DOD team followed up the Fort Carson consultation with specific strategy recommendations, which included adding Fort Carson to the Army Joint Venture Legislative Proposal for fiscal year (FY) 1995 and determining the issues most pertinent to the privatization effort at Fort Carson.²⁰ These recommendations show that although the Fort Carson Affordable Housing Project had its origins independent of the Army’s privatization efforts, its subsequent development occurred under the direction of the Army’s CVI program.

In April 1995, the FCAHP presented its housing privatization proposal to FORSCOM. The proposal provided the details for privatizing the family housing stock at Carson and also gave the Army and DOD a model it could follow at other installations.²¹ Knowing that Secretary of Defense William Perry would be in attendance, Koren and others worked diligently to pull together a brief

PowerPoint presentation for the meeting.²² The proposal to FORSCOM included a review of the existing housing and maintenance shortfalls, the poor living conditions, and the long waiting list for Fort Carson housing. It explained that the off-base housing situation had exacerbated the prior problems, because rental occupancy in Colorado Springs was almost at 99 percent, and the rents for family-sized apartments were soaring out of the reach of enlisted soldiers.

To remedy the situation, Fort Carson officials wanted “to have a private developer build new units, revitalize existing units, manage all of the units and provide these units to our soldiers at a monthly rate affordable to all ranks.” The success of the Fort Carson model rested upon “retaining local control to the maximum extent possible” through a corporate oversight entity composed of representatives from Fort Carson, the City of Colorado Springs, and local civic and business organizations. Fort Carson staff would seek the support of the U.S. Army Corps of Engineers (USACE) for the solicitation, selection, and project management tasks. The proposal encouraged FORSCOM staff to “support this bold effort to provide quality, affordable housing for our soldiers while providing a model for a partnership between DOD and the private sector.”²³ After presenting this proposal, Koren recalled, General Schwartz “basically got a verbal go-ahead” from FORSCOM and the DOD “to go ahead and start to develop it.”²⁴

In order to proceed, however, two other factors had to be resolved. First, in order to be eligible for good financial options, the project required some type of guarantee from the Army that occupancy would not be an issue. Second, Fort Carson needed legislative changes to be adopted, authorizing the partnership between the government and the private sector.²⁵



FIGURE 3-4. Aerial view of new RCI family housing development (center) amid older military housing at Fort Carson, Colo. ca. 2001.

Courtesy of RCI Office.

Very early in the planning process, Colonel Koren recognized that changes in existing legislation and DOD policy would be necessary to make the nascent privatization concept possible. From then on, he invested most of his time and effort in a lobbying and education program aimed at Congress and the Pentagon to create the legal authority and DOD policies necessary to make the affordable housing project a reality. He worked closely with Congressman Joel Hefley from Colorado’s Fifth Congressional District, who also served as chair of the House Subcommittee on Installations and Facilities, and with Hefley’s senior staffer, Philip Grone. Hefley and Grone, according to Koren, supported the privatization model early, enabling the necessary legislation to pass Congress.²⁶

In the meantime, Koren added John Keefe, an engineer detailed to Fort Carson, to his staff to tackle the on-the-ground technical aspects of the proposed program.²⁷ By June 1995, Koren could

see that they would have to overcome a number of substantial hurdles before any kind of partnering with an outside entity could occur. These hurdles included possible resistance to the program from established Army culture, applicability of Federal Acquisition Regulation (FAR) requirements, questions about how privatization of housing would affect the local school districts, and questions about what jurisdiction the installation commander would have over the privatized housing. These issues would persist throughout the privatization process at Fort Carson.²⁸

OFFICIAL PROPOSAL TO FORSCOM

General Schwartz’s FCAHP team followed up its April proposal with an official, substantially fleshed-out privatization plan, which it submitted to FORSCOM in June 1995. In introducing this second proposal, the general wrote that it was time to “turn to the private sector” to provide quality, affordable housing for his soldiers because “we can no longer rely on traditional military construction that is both unaffordable and too lengthy” (meaning that it was too costly and took too long to complete, compared to the private sector). General Schwartz again emphasized that “local involvement is key to the success of our program,” and explained that the proposal had the support of the Colorado Springs community, which had provided invaluable help in preparing the recommendations. According to the general, this cooperation between diverse organizations was “nothing less than superb in every respect.”²⁹ General Schwartz asked the Army to designate Fort Carson as a pilot program for the entire Defense Department, observing that “Fort Carson and Colorado Springs are at the right place at the right time to make this work.”³⁰

To solve the family housing problem at Fort Carson, the proposal called for renovating 1,823

existing homes and building up to 1,000 new homes on the installation. The FCAHP team presented the optimistic projection that construction could begin as early as the first quarter of FY 1996, provided that the DOD designated Fort Carson as a pilot program in July 1995.³¹ Both the new construction and the renovations would be accomplished through a unique contractual structure that required a nonprofit foundation to be set up to serve as the selection and contracting entity for Fort Carson's family housing. Such a proposal would require a legal arrangement in which the Army would provide the foundation with real estate, either through transfer or through executing an assumption agreement. The creation of the foundation promised significant tax savings and would also allow the participation of local governments in the joint venture. In the meantime, the Army would retain a degree of control and quality assurance by having a representative sit on the board of directors of the nonprofit foundation.³²

While this particular proposal was but one of many on the path to privatization, it was noteworthy because it prompted FORSCOM to use Fort Carson as a pilot project for privatizing Army housing. In fact, that July, Major General Arthur Dean, Deputy Chief of Staff for Personnel and Installation Management, wrote that he deemed four bases—Carson, Bragg, Campbell, and Hood—to be in “suitable locations for capital venture housing projects.”³³ Representatives of Fort Sill and Fort Eustis suggested that they, too, were ready to serve as pilots for privatization. But Fort Carson was the only one of these bases that already had a well-developed privatization plan that could be implemented immediately.³⁴

Although FORSCOM had indicated that Fort Carson was the best candidate for the initial pilot project, the staff's review of the June 1995 proposal

revealed that Army officials had several significant issues with the FCAHP plans. Foremost was the fact that the legal authority for a grant of government property to a nonprofit did not yet exist and was dependent upon the passage of the MHPI legislation then moving through Congress. FORSCOM also identified more tangible problems, including the fact that both the size and the number of planned homes did not meet the current needs at the base. The proposal to build 800 to 1,000 new homes did not meet the newest econometric data, which projected an eventual, post-BRAC deficit of 1,327 family housing units at Fort Carson.³⁵ (Some of the discrepancy, however, appeared to be due to differences between private-sector and government methodologies used to make the projections.)

When the CVI team hired financial consultant Conrad Hertzler to perform the first outside review of the proposal, the resulting study raised similar questions and concerns. Hertzler found the nonprofit foundation concept “problematic.” He also suggested that the projected costs of the project—including the estimated loan rate, legal fees, overhead, direct expenses, and operating expenses—were much too low. He cited a recent Army report that presented the 1994 family housing maintenance and repair costs at four other bases in the lower 48 states.³⁶ Colonel Koren later responded to the critique by explaining that Hertzler's use of bases in other geographic areas as points of comparison could not account for the economic situation then existing in Colorado Springs, upon which the FCAHP team had calculated the housing privatization cost estimates.³⁷

SITE VISITS AND INITIAL REQUEST FOR PROPOSALS DEVELOPMENT

Following the initial proposals in April and June 1995, the Army's CVI team visited Fort Carson

in September 1995. This CVI group consisted of Tom Kraeer, a retired Army officer working as a consultant; Don Spigelmyer, then the deputy director of CVI; and Lana Swearingen from the Army Housing Division.³⁸ Also attending the meetings were financial consultants Hertzler and Tom Sanders of the Delta Research Group; George Georgalis from FORSCOM; Peggy Patterson of the Office of the Judge Advocate General (OTJAG); and Bob Swieconeck, representing the USACE Real Estate Division. These meetings gave clearer shape to the privatization models that the Carson and CVI teams had developed in the previous months.

One of the topics discussed at the meetings was the use of a Request for Proposals (RFP) to select a potential private partner. The FCAHP team pulled together a rough draft RFP, wanting to use it as a point of departure for fleshing out a more substantial document.³⁹ This initial RFP stated that the Army would make the award to the contractor “most fully qualified financially by experience, character, and otherwise, and who ... has offered to furnish the most satisfactory facilities and services or best accomplish the purposes and objectives.” Despite Hertzler's concerns that the cost estimates for contracting with a nonprofit partner were much too low, the RFP maintained that a nonprofit corporation would serve “as the focal point for the construction and revitalization of housing on Fort Carson.” The corporation would provide the means to “competitively bid contracts for revitalization, new construction, and the management of both” and to enforce the contracts and “serve as the forum for government input.”⁴⁰

At the close of the site visit, the CVI team developed a list of 26 major issues that it would have to address before privatization could move forward. The most significant points of uncertainty concerned the structure of the nonprofit

foundation, the bid and selection mechanism, the applicability of federal procurement requirements, Office of Management and Budget (OMB) scoring, utilities billings, escrow accounts to insure funds for long-term maintenance, and the government mortgage guarantee.⁴¹

In mid-December 1995, staff members from the OSD Housing Revitalization Support Office (HRSO) made their first site visit to Fort Carson. By this time, the FCAHP and CVI teams had already developed the framework for making the Colorado installation the first CVI pilot project and were moving toward completing a draft RFP for solicitation of a private partner. Although HRSO Director Bob Meyer said that he “had only recently become aware” of the CVI team's work with Fort Carson officials and was “very concerned that the HRSO and the CVI team were duplicating efforts,”⁴² the December meetings and the investigations that followed led HRSO to conclude, in June 1996, that Fort Carson was “a good candidate for privatization.”⁴³ Thus, Fort Carson's place was secured as the first Army privatization pilot project.

By the end of 1995, the privatization concept taking shape at Fort Carson already resembled the installation's eventual CVI project. For example, the planning team decided early in the process that the privatization scheme should incorporate all of the family housing on the base, both newly constructed and renovated homes. Furthermore, the earliest Carson proposals emphasized the importance of government grants of property to the partner, a rental rate structure tied to the BAQ and the VHA, and a very long-term partnership arrangement. However, initial housing privatization planning for Fort Carson also included certain elements that the Army later deemed inadequate for the kind of development program the service needed. The most striking of these involved the

plan to utilize a nonprofit foundation as the prime contractor for the project.

NONPROFIT FOUNDATION PROPOSAL

Fort Carson personnel had entertained the idea of using a nonprofit entity as the prime contractor for privatization as early as March 1995 and kept it at the heart of the privatization model through the preparation of the final RFP in September 1996. Supporters of the FCAHP favored the utilization of a nonprofit 501(c)(3) or 501(c)(4) type of structure. As certified nonprofits, they would be free from most tax obligations. Such certification would provide several important benefits that could enhance the chances that privatization would succeed. These included avoiding local property taxes, fostering innovative financing, and circumventing the Federal Acquisition Regulation (FAR) and certain other government procurement requirements. In addition, use of a nonprofit meant that the Army would have to go through the contracting process only once for each project—just to establish the partnership. After that, the foundation would handle all of the subcontracts. Furthermore, a nonprofit corporation provided the means, under the authority of Colorado state law, for local government to participate in a “joint venture/limited partnership” with the Army.⁴⁴

Those within the FCAHP expected that the nonprofit entity would consist of members of the local business and civic community who were already very familiar with the Army’s needs at Fort Carson and thus more likely to make a long-term commitment to the project. Despite these benefits, it was not long before DOD and Army officials discovered several flaws in the nonprofit plan. In his outside review of the June FCAHP proposal to FORSCOM, for example, Conrad Hertzler emphasized that the foundation proposal was not only

“problematic” but also seemed “naïve.” He pointed out that the nonprofit scheme looked to be “a fairly transparent front for Fort Carson,” since it would insert Carson officials into a much more active role in ongoing management of the project than would be acceptable in most conceptions of privatization. This appearance was likely to scare off potential private partners and make OMB suspicious when it came to scoring the Carson project. Hertzler summed up his concerns in colloquial terms: “The more the project waddles, swims, and quacks as though the Army ‘owns’ the units, the more likely this project and other housing initiatives will be scored unfavorably.” Although he was in the minority at that point, Hertzler thought that deleting the nonprofit mechanism would actually improve the project’s chances for approval.⁴⁵

There were also legal pitfalls in the plans for establishing a foundation as the prime contractor. Chief among them was having the base commander sit on the board of directors. During the September meetings with the CVI team, OTJAG attorney Peggy Patterson had told participants that “the problem is that the government is contracting with a nonprofit organization of which it is a member of the Board of Directors,” a situation which raised significant legal and ethical questions.⁴⁶ In December 1995, Colonel Marshall Kaplan, Chief of the Army Standards of Conduct Office, wrote that the Joint Ethics Regulation prohibited DOD employees from “participating in the management of a non-federal entity during the course of official duties.”⁴⁷ Moreover, he also determined that the presence of a Fort Carson staff member on the nonprofit’s board would be prohibited under the conflict of interest clause in 18 U.S.C. 208 and the no communication clause in 18 U.S.C. 205.⁴⁸ But Kaplan did not completely rule out Fort Carson involvement with the foundation, stating that the

base commander might still be able to participate with a nonprofit entity as a “representative of the Army’s interest in the matter, rather than as a manager or director of the non-federal organization.”⁴⁹

Kevin O’Brien, Chief of the Contract Law Division, pointed out another potential legal pitfall of the nonprofit structure. He questioned whether Fort Carson could meet adequate competitive criteria for selection of a nonprofit because the Army had discussed the development of a nonprofit with various elements of the local community.⁵⁰ In fact, as it was then visualized, the nonprofit corporation would replace the “group of governmental officials, community leaders, and technical experts ... who have already been working with us for months to put Fort Carson in position to be designated as a test site for the new legislation.” Moreover, O’Brien was not sure that the Army could avoid federal contracting regulations even with the creation of a nonprofit as the prime contractor. As Colonel Alan Johnson stated, “the key issue” was whether the Army might not still have to go through a competitive bid procedure and the corresponding FAR even if it used a nonprofit organization.⁵¹

Despite the potential problems with the nonprofit mechanism, the FCAHP and CVI teams kept it in their working models. In fact, an outside review group suggested in October 1995 that the Fort Carson nonprofit proposal held promise for the Army as a whole: Fort Carson “may be a helpful vehicle in the development of policies with regard to scoring direct and contingent DOD commitments.”⁵² After holding discussions with the FCAHP team, Internal Revenue Service officials, and other parties, the outside reviewers determined that a foundation with the exclusive purpose of providing military housing for Fort Carson could be structured as a 501(c)(3) charitable enterprise.⁵³

But some of the steam propelling the nonprofit idea forward dissipated when the Judge Advocate General ruled in March 1996 that Fort Carson could not sole-source the contract to a selected entity, which the FCAHP team had envisioned to be the Colorado Springs workgroup that had helped give birth to and had strongly supported the privatization plan. The FCAHP team also learned that it could not structure the RFP to accept bids solely from nonprofit organizations.⁵⁴ Nonetheless, Fort Carson officials continued to explore using a nonprofit entity at the installation.⁵⁵

THE EVOLUTION OF THE PRIVATIZATION PROGRAM AT FORT CARSON

The Corps’ Omaha District oversaw the entire contracting process for the Fort Carson project, from RFP development to selection of the developer to implementation of the project contract. The CVI and the FCAHP teams envisioned that the Corps would assist with the solicitation and award process and the contractual arrangements, as well as provide design and technical advice, environmental assessments, and quality assurance. After some debate about which Corps district to utilize, Colonel Koren enlisted the help of a team from the Omaha District, which brought its considerable experience with military construction, design specifications and standards, outsourcing, and contracting.

Besides the addition of the Corps’ Omaha District team, several other changes occurred in early 1996 that shaped the work of the Carson privatization team. For example, General Schwartz moved to Fort Hood and Major General John Pickler stepped in to replace him as commanding general of Fort Carson. Fortunately, according to Russ Hamilton, then the Fort Carson staff judge advocate, Major General Pickler “hopped on board



FIGURE 3-5. Cover of one of the FCAHP's 1996 Fort Carson briefings to the Pentagon.

Courtesy of U.S. Army Corps of Engineers.

very enthusiastically” with privatization planning.⁵⁶ Meanwhile, in January and February 1996, Congress passed and President Clinton signed into law the *National Defense Authorization Act of 1996*, which contained the MHPI legislation. This legislation provided the Army with the authorities it needed to implement the pilot project at Fort Carson.

From January through August 1996, both the Fort Carson and Omaha District teams gave numerous project briefings to Department of the Army and DOD staff to garner support for the Fort Carson plan. These briefings usually began with preparatory meetings at Fort Belvoir with the CVI team, followed by an appearance at the Pentagon to make the full presentations. The FCAHP plan that was presented to the Army in 1996 was quite similar to the proposals developed during the previous year, except that the Carson privatization model no longer rested solely on establishment of a nonprofit entity as the housing partner (although that remained one of the possible options). The new Fort Carson proposal provided for a private developer to contract with the Army for the operation, renovation, and modernization of 1,823 existing homes and the construction of 840 new housing units, thus encompassing all

of the family housing at the installation. The Army would turn over the property and structures to the private partner under a 50-year ground lease, during which time the partner was responsible for managing, repairing, and maintaining the property. A number of other key elements also remained in place, such as directly allocating soldiers' housing allowance to the partner for rental payments, tying unit costs to housing allowance rates, and providing a government mortgage debt guarantee against base closure or contraction.⁵⁷

Initial presentations to the Pentagon, according to Keefe, generated “lots of skepticism,” but the Fort Carson team gradually built up support as it explained the privatization plans. For example, in February 1996, the FCAHP conducted a well-received briefing with the Army Housing Office that made individuals in that office aware of what the FCAHP wanted to do. At the end of the briefing, the Army determined that the FCAHP needed to submit a Project Business Plan, developed in concert with Delta Research, to the Secretary of the Army. Once approved, the Secretary would notify Congress that the Army intended to proceed with the plan after 30 days.⁵⁸

This same briefing presented an opportunity for the Army to discuss scoring issues with the OMB. At this juncture, Keefe did not think that scoring would become a major problem. He believed that using a loan guarantee in the proposal, whereby the government would guarantee that it would not close or downsize Carson (and would pay 80 percent of the nonprofit organization's loan if it did), was the only potential scoring issue. Keefe reported that the OMB wanted the Army to guarantee only between 8 and 15 percent of the loan total, rather than 80 percent.⁵⁹

In March 1996, important working group sessions of FCAHP team members and Omaha

District staff took place at Fort Carson. The meetings were aimed at developing a more specific plan for implementing the Affordable Housing Initiative, addressing issues that still needed to be resolved, and drawing up a statement of work for inclusion in a full RFP.⁶⁰ Two new important pieces of information were brought to light during the workgroup sessions. First, it was learned that the Judge Advocate General had given Fort Carson an unfavorable ruling on its request for relief from the FAR. Instead, it seemed that all of the elements of the FAR and the *Competition in Contracting Act* (CICA) were going to be applied to the Fort Carson pilot project. The ruling meant that the Army could not sole-source the contract to a nonprofit foundation consisting of Colorado Springs business and community leaders. Second, the Army could not restrict the solicitation solely to nonprofit organizations; the bidding process would have to be “fully competitive.”⁶¹ Although the Army sought a waiver from this ruling, for all intents and purposes the Fort Carson team could no longer focus on a privatization process that had a nonprofit foundation as the lynchpin in a military-private partnership.

In preparation for the March meetings with the Omaha District, Keefe's team had compiled a list of issues that needed to be addressed in order to implement the Carson privatization plan. By the end of the three-day series of meetings, the participants had generated a new list of “open issues,” with an action plan for exploring or solving each of them.⁶² Two of these issues—Army staff's acceptance of the program and the relationship with the local school district—were to become significant roadblocks to privatization at Fort Carson.

The Army Housing Office at Fort Carson, part of the installation's Directorate of Public Works, opposed the privatization plan because it

meant that most of the office's functions would be assumed by a private developer. Housing office staff understandably felt threatened by the privatization proposal, as many stood to lose their jobs when the project reached the implementation stage.⁶³

Another pertinent example of Army culture running counter to privatization involved an initial plan for Fort Carson family housing occupants to pay for their utilities (as they would when living off base). This proposal met so much resistance from Army leadership that the FCAHP team eventually removed it from the privatization proposal.⁶⁴

Further resistance came from School District No. 8, which included Fort Carson. Because more families would be living on the base, the district worried that the program would strain its educational facilities to the breaking point. Therefore, as the FCAHP made its plans for privatization, the school district insisted that the Army (or the private housing partner) build a brand-new school to support the predicted rise in the school-age population. The district maintained that it could not afford to build the school and that, even if it could, it would require roughly seven to nine years to budget for the construction costs.⁶⁵ The district felt so strongly about this issue that it took its concerns to Colorado's congressional delegation. The delegation told Fort Carson that it had to satisfy the school district before privatization could proceed.⁶⁶ According to CVI leaders, the MHPI legislation did not authorize the construction of school buildings as part of the privatization process.⁶⁷ In addition, Army officials insisted that they were not in the business of building schools and worked to quash any plans for school construction within the CVI project framework. They were especially concerned that any agreement to build schools might establish an unwanted precedent with regard to family housing privatization at other installations.⁶⁸

Eventually, Fort Carson leadership reached an agreement with the school district that it “would make best efforts to minimize the harm” that privatization might cause.⁶⁹ Fort Carson would make the legally mandated impact payments to the district (although this was still problematic because the district would not get this money until the end of each school year), and the CVI team would work with HRSO to establish the amount of impact aid that would go to the district. A bigger step was taken on August 14, 1996, when Fort Carson Commanding General Pickler signed an agreement with the local school superintendent to convert a child care facility on the installation to an elementary school, a compromise that was finally implemented in 2003.⁷⁰ Congressman Hefley believed that this resolution taught the Army and other officials an important lesson: those in the community who would be affected by privatization needed to be involved early in the process to mitigate any issues that might arise.⁷¹

In their responses to the school district’s demand, the DOD, the Army, the CVI team, and the Corps’ Omaha District made their decisions with one eye to the success of the pilot project at Fort Carson and the other to the impact that their decisions would have on future CVI/RCI projects across the country. Although the privatization movement began as a grassroots effort in Colorado, by 1996 Army and CVI staff from Washington, D.C., were closely involved with all that transpired there, especially since Fort Carson had become the first CVI pilot.

FIRST RFP AND INITIAL SELECTION

Despite the problems, the Fort Carson privatization team continued to make progress on the path to privatization. In the fall of 1996, the team held an industry forum to give interested parties

information about the family housing project and the RFP, which was the Army’s primary means of procuring work from outside contractors. In the RFP solicitation process, companies compete with one another by submitting bids (also called “offers”) and detailed work plans, as well as documenting their prior experience and expertise in the field. In the case of the Army housing privatization RFP for Fort Carson, the responding companies also submitted financial pro formas.⁷² Approximately 300 potential contractors and consultants attended the Fort Carson forum. The tremendous turnout testified to the potentially lucrative nature of the long-term contract and signaled the heavy competition the RFP would generate.⁷³

General Pickler opened the forum, then Don Spigelmyer gave an overview of the Army CVI program, Keefe described the specific FCAHP, and Omaha District Contracting Officer Kirk Williams explained the Army’s solicitation and evaluation process. Sergeant Major Perry Williams led a bus tour of the Fort Carson housing area. During the morning presentation, several key points in the RFP were covered, most notably the general housing requirements and the government’s offer of incentives to promote private interest in the project. Three of the enhancements had frequently been mentioned during the previous two years of FCAHP planning: a government mortgage guarantee that would cover 80 percent of the debt in the case of base closure or downsizing, outright conveyance of all structures on the government property to the contractor under the terms of a ground lease, and the use of a soldier’s BAH as rental payments for the housing.⁷⁴

RFP Release

On December 24, 1996, the Omaha District issued the RFP for privatization of family housing

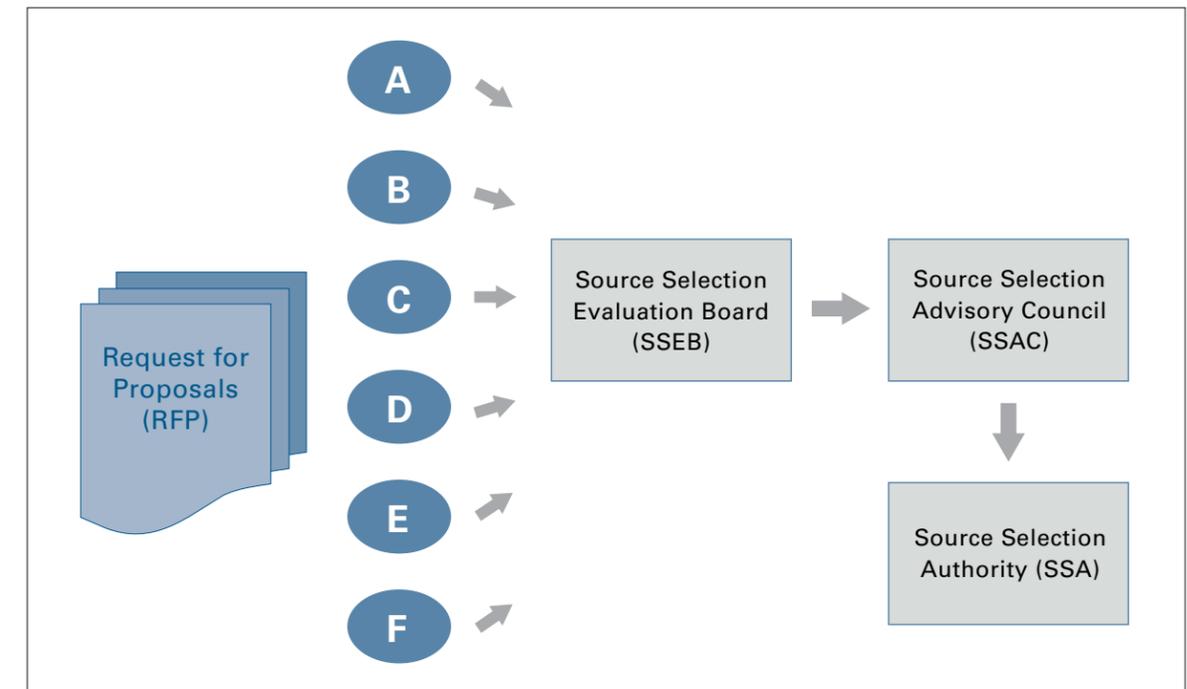


FIGURE 3-6. How the selection process worked at Fort Carson.

at Fort Carson. It called for the winning contractor to build 840 new family housing units and to renovate or replace Fort Carson’s existing 1,823 homes.⁷⁵ The contractor would own, maintain, and manage all of the homes for a period of 50 years, after which time the government could offer the partner a contract extension of an additional 25 years. Because the proposal was such a deviation from the norm of Army contracting, the Corps’ contracting team produced several amendments to the original RFP, some of them dealing with bonding requirements and others addressing conflict of interest.⁷⁶

By the close of the RFP deadline on April 29, 1997, 15 companies had submitted proposals to the Corps’ Omaha District in response to the solicitation. The complicated proposal evaluation and selection process began the following week. The process was similar to the procedures that Omaha

District personnel used for selecting other military construction (MILCON) contractors: two evaluation entities, the Source Selection Evaluation Board (SSEB) and the Source Selection Advisory Council (SSAC), selected the top bidder under the authority of the Source Selection Authority (SSA), usually a high official in the Army.⁷⁷ The SSEB’s job was to evaluate all 15 offers and forward its top recommendations to the SSAC.

The Corps’ Omaha District provided special training to prepare the SSEB members for their evaluation task. The large dollar amounts involved and the need to project the costs and expenses over a period of 50 to 75 years necessitated the use of financial expertise that Army personnel on the SSEB did not have.⁷⁸ Therefore, the Army contracted with the accounting firm Ernst & Young for consulting advice and the firm sent two financial specialists to help the team review each bidder’s

pro forma and financial spreadsheets to discern any areas of weakness, discrepancy, or non-transparency. Fort Carson Housing Program Analyst Dean Quaranta emphasized that the financial consultants played a very important role because a bidder could present a plan that looked good on paper but was infeasible in reality. Harrison Cole, Fort Carson contracting officer, added that “money [was] the bottom line” in determining the best potential partner.⁷⁹

In addition to financial details, the proposals had to show how the bidder would finance the project through loans, as well as the structure of reinvestment accounts that would provide the contractor with the money necessary for future construction and maintenance. At the end of the evaluation, the SSEB selected what it determined to be the top six proposals and also made an informal recommendation of what it considered to be the best proposal.⁸⁰

After the SSEB completed its evaluation, the recommendations went to the SSAC, which convened on June 23, 1997. The SSAC needed just two days to come up with its recommendation that the preliminary award be made to the partnership of Keller/Catellus, forgoing the “Best and Final Offers” phase.⁸¹ On June 25, 1997, the SSA—Brigadier General Robert H. Griffin, Commander of the U.S. Army Corps of Engineers Northwest Division—approved the selection and on July 15 the Corps’ Omaha District notified Keller/Catellus that it had won the contract award, contingent upon completion of a final round of negotiations. The district, however, erred in failing to inform the other top bidders of the selection until October 24, more than four months after the award. Keller/Catellus, meanwhile, entered into contract negotiations with the Omaha District that included development of the housing management plan,

preparation of contract management procedures, and the finalization of the loan guaranty. On October 24, the Army informed Keller/Catellus that the contract award was final.⁸²

Several protests of the award, however, delayed the privatization process. During the course of proposal reviews, the Hunt Building Corporation of El Paso, Texas, filed a protest with the Omaha District, contending there was a lack of clarity in the bonding requirements delineated in the RFP, which led to another amendment of the RFP. Hunt was not finished, however, and on October 23, 1997, it filed a suit in the U.S. District Court for the Eastern District of Virginia, claiming that “the Government conducted negotiations only with Keller/Catellus and ... improperly excluded Hunt from the competitive range.” The District Court and, subsequently, the Fourth Circuit Court of Appeals dismissed the claim because “Hunt had failed to show that it had a substantial chance of being awarded a contract.”⁸³

In addition to Hunt, another competitor for the contract, Pikes Peak Family Housing, filed a suit against the Army and the U.S. government on March 3, 1998, in the Court of Federal Claims, contending that the Army had conducted negotiations solely with Keller/Catellus in violation of the FAR and the terms of the RFP. As the litigation continued, the Army conducted its own internal investigation of the situation, discovering that an SSEB team member had disclosed to a manager of Insignia Residential Group, then serving as an agent for Keller/Catellus, pertinent information found in competitors’ proposals. Because the DOD *Procurement Integrity Act* prohibited such unauthorized disclosures during a competitive bidding process, the Army’s Major Procurement Fraud Unit investigated the event. The Army found no criminal intent on the part of either party and

determined that the disclosure occurred after the selection authority had informed Keller/Catellus of its standing as the single finalist. Nonetheless, the Pikes Peak suit and the finding of unauthorized disclosure indicated that the Omaha team needed to take a number of “corrective actions” before it released a new solicitation.⁸⁴

Despite the disclosure problems, the judge in the Pikes Peak lawsuit filed an opinion on April 7, 1998. This opinion did not uphold the Pikes Peak claim, but it did specify that there were three technical inconsistencies in the way the selection process had been conducted that deviated from the federal requirements. Two of these simply involved the timing of the notifications to Keller/Catellus and to the other offerors. The third technical inconsistency was the SSAC’s failure to provide the categorization and ranking of the unsuccessful offerors in the selection report, which was required by the Source Selection Evaluation Plan (SSEP). On April 24, the United States and Pikes Peak agreed to settle the case. The conditions of the settlement called for the Corps to cancel the previous award and either continue the original solicitation process from the first RFP, with Pikes Peak and Hunt included in a new competitive range, or issue a new RFP and start a new selection process. As a result of these findings, the Omaha District contracting office decided to cancel the original solicitation and selection in order to create “a clean slate,” and issued a second RFP to determine the contract award. The legal protests and settlement talks had put the privatization project on hold for nearly six months. It was ultimately to be 18 months before the Omaha District awarded the contract.⁸⁵

In preparing to release the second solicitation, the Omaha District team wanted to ensure that the new RFP process “restore[d] offerors to the equal

footing they enjoyed during the evaluation process,” primarily by eliminating any real or perceived advantage gained by the Keller/Catellus or Pikes Peak teams during the initial post-selection dialogue or during the court proceedings and settlement talks. To level the playing field, the Corps’ Omaha District contracting office provided the other original offerors the pertinent “inside” information that Keller/Catellus or Pikes Peak may have garnered from their involvement in the first selection process and the legal proceedings.⁸⁶ Then, on September 9, 1998, the Omaha District released the second RFP. It mirrored the first one in calling for the winning contractor to construct 840 new homes and renovate or replace 1,823 already-existing homes.⁸⁷ Contractors had to respond with their proposals by January 28, 1999.

The Omaha District received a total of six proposals in response to the second RFP. But Keller/Catellus’ was not among them. Although the company had prepared the winning proposal for the first RFP, the two principals, Keller and Catellus, had dissolved their joint venture by the time of the second RFP. The Omaha District eliminated one of the proposals submitted—that of the U.S. Military Housing Benefit Corporation (USMHBC)—because of a conflict of interest. Specifically, a member of the USMHBC Board of Directors previously had been a member of the SSEB for the original Fort Carson housing solicitation.⁸⁸ This led USMHBC to file a protest on March 26, 1999, further delaying the privatization process, although the SSEB evaluation of the five remaining proposals continued during this time.⁸⁹

Once the SSEB submitted its report, the SSAC reviewed the process to determine whether the SSEB’s evaluation procedures were consistent with the guidelines laid out in the RFP and the FAR. The SSAC also reviewed the proposal ratings in the



FIGURE 3-7. The first home in the nation completed under Army housing privatization, as part of the CVI project at Fort Carson.

Courtesy of Balfour Beatty Communities.

SSEB report and found that all five of the remaining offers fell within the competitive range for the project. (By this time, the USMHBC proposal had been disqualified: on May 5, 1999, the Corps' Northwestern Division Council had rejected the USMHBC protest and upheld the Omaha District's decision to eliminate that proposal.) Brigadier General Griffin, the SSA, concurred, and the offerors were notified that they had passed the first hurdle. They were then given the opportunity to respond to questions or correct weaknesses in their proposals, as well as ask their own questions, and were told to submit their "best and final" offers no later than July 8, 1999.⁹⁰

After reviewing these revised proposals, the Corps' Omaha District awarded the privatization contract to Fort Carson Family Housing, LLC, a subsidiary of J.A. Jones, on September 30, 1999. At the contract signing on November 23, 1999, the Army made the official lease and transfer of property to J.A. Jones, and Fort Carson became "the first military installation in the U.S. to privatize its entire inventory of on-post housing units."⁹¹ J.A.

Jones completed the first home at Fort Carson, and the first house of the entire Army housing privatization program, on October 31, 2000.

CONCLUSION

By the time that Fort Carson Family Housing, LLC, began work at the installation in late 1999, most of the FCAHP and Omaha District participants in the privatization process to that point considered the project a success and foresaw a favorable long-term future for the project. But it had been a long road to get there. From the early public discussions of a privatization plan in January 1995 to the signing of the contract with J.A. Jones in late 1999, Fort Carson had taken nearly five years to go from planning to partnering, and the actual bricks and mortar work was still to come. Despite the lengthy planning period and the legal and policy tangles that burdened the RFP selection process, members of the Fort Carson and Omaha District teams believed that the pilot project had established an effective model for privatization of Army family housing throughout the country.⁹²

Beyond Colorado Springs, however, the assessment of Fort Carson privatization was less positive. For example, a 1998 General Accounting Office (GAO) report, *Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed*, outlined significant concerns about the Fort Carson pilot, including problems that Congress and Department of the Army officials wanted addressed.⁹³ Although the GAO report was meant to examine DOD privatization achievements and problems as a whole, it was based on evaluations of the privatization efforts at Fort Carson and a much smaller housing project at Lackland Air Force Base.⁹⁴ The GAO report focused on three central problems with DOD privatization programs, all of which applied to Fort Carson. Investigators ascertained that the privatization pilot project was too slow in its implementation, was unlikely to produce the projected cost savings, and needed to be "better integrated with other elements" of DOD housing programs. Members of Congress and some DOD officials voiced similar qualms about Fort Carson. In 1998 and 1999, for example, the House Subcommittee on Military Construction Appropriations questioned the delays in implementation, the Army's economic analysis of the potential cost savings derived from base housing privatization, and the projected budgets for post-construction housing management.⁹⁵

Of particular concern to U.S. Representative David Hobson (R-Ohio), chair of the House Subcommittee on Military Construction Appropriations, was the question of whether the Omaha District's appraisal of Fort Carson installation property and facilities had underestimated their value. According to Congressman Hobson, the entire Army privatization program faced a deficiency in its property and financial assessments.⁹⁶ Although the congressman realized certain

problems and discrepancies were inevitable in an initial pilot project of a major program such as CVI, he addressed the need for a more standardized and systematic approach to the evaluation, financing, and implementation of all Army privatization projects. The GAO report likewise recommended that the Army take steps to "develop comprehensive plans that integrate all elements" of existing DOD and Army housing proposals, so that future housing projects around the country could be successfully coordinated and accurately assessed.⁹⁷

Because many aspects of the housing privatization model had never been attempted before, it was inevitable that unanticipated problems would surface during the development and implementation of the Fort Carson pilot. Nonetheless, some problems were serious enough to prompt the Department of the Army—spurred on by Congress—to reconsider its entire approach to housing privatization. The Army examined and began working to rectify the weaknesses detected in the solicitation and implementation of the Fort Carson project. When Mahlon "Sandy" Apgar began his work as Assistant Secretary of the Army for Installations and Environment in 1998, he took on the challenge of reconfiguring the structure of the Army's privatization program in order to facilitate more streamlined processes, comprehensive strategies, and uniform assessment tools for the Army's existing and potential housing privatization projects. His approach would significantly alter the structure of the Army's family housing privatization program.

ENDNOTES TO CHAPTER 3

1. U.S. Representative Joel Hefley telephone interview by Paul Sadin, 22 September 2008, Transcript, 1.
2. Jerry Stafford interview by Paul Sadin, 5 June 2007, Fort Carson, Colo., Transcript, 2. Stafford was a member of the Fort Carson family housing privatization team in its early years, and later returned to join the housing partner, GMH, as an assistant community manager.
3. Stafford interview, 2.
4. U.S. General Accounting Office [GAO], *Military Base Closures: Better Planning Needed for Future Reserve Enclaves*, Report No. GAO-03-723 (Washington, D.C.: U.S. General Accounting Office, 2003), digital copy (no page numbers) available at <<http://www.gao.gov/htext/do3723.html>> (21 May 2010); see also U.S. Department of Defense, Report of the Defense Secretary's Commission, "Base Realignment and Closures," December 1988, 6-11, digital copy available at <<http://www.hqda.army.mil/acsimweb/brac/003283.pdf>> (21 May 2010).
5. "Pentagon to Seek Scaled-Back List of Base Closings," *New York Times*, 25 February 1995.
6. Thomas Schwartz personal communication with Paul Sadin, 2 May 2008.
7. Thomas Kraeer interview by Matthew Godfrey, 18 October 2007, Crystal City, Va., Transcript, 4.
8. Tony Koren telephone interview by Paul Sadin, 24 July 2008, Transcript, 3.
9. Schwartz personal communication with Paul Sadin, 2 May 2008.
10. U.S. Army, "Environmental Assessment for the Fort Carson Affordable Housing Program, Fort Carson, CO," June 1996, 1, Share Drive database, RCI Program Office, Crystal City, Va. Hereafter cited as RCI Office.
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13. Koren interview, 3.
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16. Georgalis memorandum, 6 March 1995, 2.
17. Hamilton interview, 3.
18. "Process" Memorandum, Received 13 March 1995, Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
19. "Proposal for Fort Carson Housing Initiative," ca. Spring 1995, Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
20. U.S. Department of Defense, "DOD Tiger Team Hurdles to Overcome," Received 13 March 1995, Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
21. Fort Carson Affordable Housing Program (FCAHP), Draft Memorandum for Commander, FORSCOM, April 1995 (fax transmission 2 May 1995), Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
22. Koren interview, 2.
23. FCAHP Draft Memorandum for Commander, FORSCOM, April 1995, 2.
24. Koren interview, 2.
25. "Elements of Proposal for Fort Carson Housing Initiative," Received 2 May 1995, Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
26. Koren interview, 3-4.
27. Keefe's Fort Carson staff included Major Brian Schuler, Non-Commissioned Officer (NCO)-in-Charge Jerry Stafford, and administrative specialist Jody Quinn.
28. Koren interview, 4-5; and John Keefe telephone conversation with Paul Sadin, 22 September 2008, Seattle, Washington, unrecorded.
29. General Thomas Schwartz to Commanding General Dean, FORSCOM, 23 June 1995, Loose papers, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
30. Schwartz to Dean, 23 June 1995.
31. "Fort Carson Affordable Housing Program," 15 June 1995, 2.
32. Quoted in "Fort Carson Affordable Housing Initiative Fact Sheet," ca. June 1995. See also "Fort Carson Affordable Housing Program," 15 June 1995, 9.
33. Major General Arthur Dean, Deputy Chief of Staff for Personnel and Installation Management, to Commander FORSCOM, 21 July 1995, Loose papers, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
34. Dean to Commander, FORSCOM, 21 July 1995.
35. Fort Carson Affordable Housing Program HQ FORSCOM Detailed Review Comments, n.d., Enclosed with document dated 22 June 1995, Loose papers, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
36. Conrad Hertzler, Financial and Economics Consulting, to Don Spigelmyer, memorandum, 16 August 1995, File: Fort Carson Affordable Housing Initiative, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
37. Henry Koren, Jr., Memorandum to Chief, CVI Team, 14 September 1995, File: Fort Carson Affordable Housing Initiative, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
38. Capital Venture Initiatives Team, Fort Carson Affordable Housing Initiative Issues, 19-21 September 1995, File: Fort Carson Affordable Housing Initiative, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
39. Keefe telephone conversation, 22 September 2008.
40. Draft Request for Proposal (RFP), Fort Carson Affordable Housing Initiative, ca. September 1995, File: Fort Carson Affordable Housing Initiative, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
41. Fort Carson Affordable Housing Initiative Issues, 25 September 1995, Enclosure no. 2 with Keefe Memorandum, 21 September 1995, Unlabeled binder, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
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51. Colonel Alan D. Johnson, GS, Chief of Staff, Memorandum Thru [sic] Chief of Staff, U.S. Army Forces Command, Fort McPherson, Georgia, for Assistant Chief of Staff for Installation Management, Headquarters, Department of the Army, 10 October 1995, 1-4, Unlabeled binder, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
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63. Pat Mikita, Dean Quaranta, and Harrison Cole interview by Matthew Godfrey and Paul Sadin, 4 June 2007, Fort Carson, Colo., Transcript, 9.
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65. “Fort Carson Affordable Housing Initiative, Discussion of Open Issues,” 21 March 1996.
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69. Hamilton interview, 5.
70. “Ft. Carson CVI,” Unlabeled binder, Box 4, Uncatalogued Housing Materials, Research Collections, USACE Office of History.
71. Hefley interview, 8.
72. “MHPI Program Evaluation Plan (PEP) Fort Carson Project Summary Report, Period Ending 31 December 2000,” 15 March 2001, 7, Share Drive database, RCI Office.
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74. Industry Forum Agenda: Housing Privatization for Fort Carson, CO, ca. 1996, document provided by Jerry Stafford, CMH Community Management Office, Fort Carson Housing Office, Fort Carson, Colo.
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78. Hill interview, 11.
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80. Mikita, Quaranta, and Cole interview, 13.
81. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 2.
82. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 2.
83. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 2. Hunt was later included in the out-of-court settlement of the Pikes Peak litigation, which directed that both Hunt and Keller/Catellus be included in the competitive range of the bidding, based on the proposals they had previously submitted.
84. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 2, 4-6.
85. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 3, 8.
86. Williams, Decision Document: Solicitation No. DACA45-96-R0033, 6.
87. “Source Selection Advisory Council Report, Privatization of Military Family Housing, Fort Carson, Colorado,” RFP No. DACA45-98-R0024, 14 September 1999, 1, File: DACA 45-99-COPY-0066 Fort Carson Family Housing LLC, Drawer no. 3, Tan file cabinet, Program Analyst Office, Housing Division, Fort Carson.
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90. “Source Selection Advisory Council Report, Privatization of Military Family Housing , Fort Carson, Colorado,” 4.
91. PEP Narrative, March 15, 2001, Documentum database, RCI Office.
92. Hansen interview, 11. Oral history interviews were conducted with a total of eight individuals who had a hand in the creation or implementation of the Fort Carson Affordable Housing project, including Hansen. The account of each individual supports the conclusions reported here.
93. GAO, *Military Housing: Privatization Off to a Slow Start*, 20-31.
94. In terms of the number of renovated and new housing units, the privatization plan at Lackland AFB was less than one-fifth the size of the Fort Carson pilot project, as discussed in GAO, *Military Housing: Privatization: Privatization Off to a Slow Start*, 44.
95. House Subcommittee on Military Construction Appropriations of the Committee on Appropriations, *Hearings on Military Construction Appropriations for 1999*, 105th Cong., 2d sess., 12 March 1999, 391-94.
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FIGURE 4-1. Privatized housing, Fort Belvoir, Va
Courtesy of Clark Realty Capital.



CHAPTER FOUR

The Switch to the Residential Communities Initiative (RCI), 1998–1999

In 1998, while Fort Carson was mired in legal proceedings relating to its Request for Proposals (RFP), Mahlon “Sandy” Apgar, IV, a real estate consultant, became Assistant Secretary of the Army for Installations and Environment. Frustrated with what it regarded as the U.S. Army’s slow progress in implementing privatization, Congress told Apgar to fix the service’s housing problem. A visionary in the real estate arena, Apgar jumped at the chance and soon began molding the Army’s program according to his idea of how privatization should proceed. Apgar envisioned not just new houses but whole communities rising from the dilapidated, aging residences on Army installations. These new communities would include neighborhood centers, playgrounds, and retail outlets. Apgar christened his vision the Residential Communities Initiative (RCI) and proclaimed as its goal the revitalization of Army housing through a close partnership with private developers. Between 1998 and 2000,

Apgar and the newly created Army RCI Task Force had the job of trying to get Congress, high-level Army officials, and soldiers themselves to accept this vision of Army housing. It was a rough road, fraught with perils and pitfalls, but it marked the official beginning of the RCI program.

A NEW VISION

By 1998, privatization of Army housing seemed to be moving at a snail’s pace. In March 1997, John B. Goodman, Deputy Undersecretary of Defense (Industrial Affairs and Installations), had reported to Congress that the Department of Defense (DOD) had six projects “approved for development” that would produce 4,000 homes. At that time, according to Goodman, Secretary of Defense William Perry commented that “it is not as much as I hoped but more than I expected.”¹ Nevertheless, Goodman realized that the effort was insufficient and told Congress of the department’s intentions to “double that effort” in Fiscal Year (FY) 1998.²

Yet by 1998, two years after the passage of the MHPI legislation, not a single house on any Army installation had been privatized and housing conditions had continued to deteriorate. Fort Carson had awarded a privatization contract, but the resulting lawsuits and protests had delayed actual development and necessitated a second solicitation. The Army had a good idea of where it wanted to go with privatization—the Capital Venture Initiatives (CVI) program—but progress was slow. The U.S. General Accounting Office (GAO) issued a report in 1998 indicating that none of the military services within the DOD had shown much movement on the privatization front and that the Fort Carson project was the closest to having an agreement in place. According to the GAO, the DOD blamed the stagnation on the growing pains that any new program would experience, as well as on the process of working out legal and financial kinks in privatization procedures.³ The DOD had originally estimated that privatization of all housing could occur by FY 2006. In March 1997, trying to illustrate that progress was being made, Goodman informed Congress that the department was attempting to reduce the amount of time that the site visit process took, as well as to streamline approvals of RFPs.⁴ But ultimately, because of delays and slow progress, in 1997 the DOD revised their timeline from FY 2006 to FY 2010.⁵

Although the Army's CVI program had begun and had made significant progress at Fort Carson, support for privatization within the service was by no means universal. Dean Stefanides, who ran the Army Housing program within the OACSIM, supported privatization, but others in that same office did not. Doubts about the program centered on the removal of housing control from garrison commanders and uncertainty about a private developer's ability to provide the level of service that

Army officials expected their soldiers to receive. The fact that the Army was, according to former Vice Chief of Staff of the Army General Jack Keane, very conservative and uncomfortable with change did not help either.⁶ “As the CVI was positioned in the Army Staff (OACSIM), everyone had an opportunity to chop on it, to delay it,” recalled Rhonda Hayes, one of the members of the RCI team.⁷

The opposition of some Army officials to privatized housing proposals emerged clearly in a forum held on February 20, 1998, in Tulsa, Oklahoma, sponsored by the Professional Housing Management Association (PHMA). This forum was held in order for installation officials, Army housing staff, DOD leadership, and private developers to examine privatization closely. It provided an arena for lively debate about the CVI program, including consideration of whether it was the best way forward. Some at the forum wondered why the Army could not just continue to use the Business Occupancy Program (BOP) to improve housing. Ted Lipham, who had assumed the helm at CVI within the OACSIM, answered that neither this program nor a Non-Appropriated-Fund-type organization could generate the \$6 billion necessary to solve the housing problem. Only the private sector had that type of money.⁸

Developers, however, were not enthusiastic about CVI. Their main concern was that they would have to spend considerable time and money to respond to RFPs. Michael Sedivy of GE Capital Real Estate, for example, asked the Defense Department, in the words of one reporter, “to cut back on the numerous checks in the contracting process.” At a minimum, contractors hoped to see a two-step RFP process that would allow them to spend a relatively small amount of money until they knew whether the Army considered them competitive for the project. At the same time, as



FIGURE 4-2. Pre-RCI housing at Presidio of Monterey, Calif. In 1998, two years after the passage of the MHPI legislation, no new houses had been built on any Army installation, and housing conditions continued to deteriorate.

Courtesy of Clark Realty Capital.

had occurred at Fort Carson, installation housing managers expressed dismay at privatization, fearing that it would eliminate their jobs. In response, Brigadier General (Ret.) Bob Herndon, president of the PHMA, counseled that, regardless of whether privatization advanced or not, “training, professional certification, and flexibility” would be necessary because of inevitable “dramatic changes” in military family housing.⁹

Congress, too, expressed significant reservations about military housing privatization, especially with regard to two problems, which on their face seemed contradictory. On one hand, members of Congress expressed frustration with the slow progress of privatization. On the other, legislators expressed fears that the Army was moving too aggressively with the privatization program before knowing for certain how well it would work. In a March 1997 hearing on privatization, for example, U.S. Representative Ron Packard (R-California), chairman of the House Military Construction Appropriations subcommittee, declared that privatization should be simply a way to supplement construction occurring under the traditional military

construction (MILCON) program, not replace it.¹⁰ A May 1998 report issued by the House Committee on National Security on the National Defense Authorization Act for Fiscal Year 1999 reiterated that point, explaining that although Congress regarded privatization as “a central component of the ultimate resolution of the military housing crisis,” the DOD should not use it to the exclusion of MILCON projects. This was especially important in areas that had pressing housing needs and in places where implementing privatization would be difficult.¹¹ Congressman Packard summarized the seeming contradiction of moving faster without being overly aggressive as follows: “We’re looking for grand success in this area ... but we are concerned about some loopholes that we sense have not been carefully addressed.”¹² As in the military, many in Congress had not yet fully embraced the privatization concept and questions remained.

While acknowledging these concerns, proponents of privatization in the Army forged ahead. In March 1998 Lipham announced that, by the end of FY 1998, 60 percent of the Army's family housing units (or 53,000 of the 90,000 homes) within the continental United States would fall under CVI. This would enable the Army to meet the DOD's goal of privatizing all housing by FY 2010. By September 1998, the CVI team within the Army Housing Office had determined that it could accomplish this goal by implementing six CVI projects a year until all 43 Army installations were privatized. A total of 11 installations would be converted to CVI in FY 2000 and 2001, and the projects would receive funding from the DOD's Family Housing Improvement Fund, from soldiers' housing allowances, and from Army Family Housing Operations funds.¹³

Enter Mahlon “Sandy” Apgar, the new Assistant Secretary of the Army for Installations and Environment. He assumed his new post well



FIGURE 4-3. Mahlon "Sandy" Apgar, IV, Assistant Secretary of the Army for Installations and Environment.

Courtesy of Department of Defense.

suited to the task at hand, as he had previously formed and run his own real estate consulting practice and published numerous articles on real estate and urban development issues.¹⁴ In the 1990s, Apgar had served as chair of a task force on military housing for the U.S. Navy and it was then that he first encountered the MHPI legislation. In 1998, the Clinton administration nominated him to be the Assistant Secretary of the Army for Installations and Environment. According to Apgar, at his confirmation hearings before the Senate Armed Services Committee in May, U.S. Senator John Warner (R-Virginia), deputy chairman of the committee, specifically told him to "fix the Army's housing problem."¹⁵ Apgar embraced that challenge, assuming that he had the responsibility to fix these problems because his appointment gave him power over the Army's housing,

real estate, and facilities. He was sworn in as Assistant Secretary on June 19, 1998.¹⁶

Apgar brought not only real estate expertise to the program but also a large measure of self-confidence and an unwillingness to accept "No" for an answer. These characteristics—labeled by some as arrogance—led to a perception of Apgar as the proverbial "bull in the china shop."¹⁷ Others characterized him as "tenacious" and as someone who had "an idea a minute."¹⁸ The responsibility of picking up the pieces behind Apgar was often assumed by Bernard Rostker, the Undersecretary of the Army, who had a strong commitment to privatization and supported Apgar's views on housing (although he did not always agree with Apgar's methods). As Barry Scribner, a Jones Lang LaSalle consultant, explained, "Rostker was really covering Apgar as so many people inside the Army and in OMB [Office of Management and Budget] and in Congress were trying to crush him."¹⁹

Only six weeks after taking office, Apgar visited Forts Carson and Lewis and decided that drastic measures were needed to improve Army housing. These visits opened his eyes in two key ways. First, they showed him "the awful conditions" in which soldiers and their families lived. Second, he found that much of the family housing on Army installations was "just plain ugly."²⁰ In Apgar's mind, not only were existing homes in many cases dilapidated, they were also "vintage 1950s." What he meant is that in the 1950s, the average size of a single family home in the United States was 983 square feet and included few bathrooms and small bedrooms. By the twenty-first century, the average size had increased to 2,349 square feet. Nonetheless, many families on military installations still had to live in the small houses constructed under the Wherry and Capehart programs.²¹



FIGURE 4-4. Pre-RCI housing unit at Camp Parks, Calif.

Courtesy of Clark Realty Capital.

To address these issues, Apgar wanted the Army to thoroughly embrace private development. He met with real estate industry representatives to ask them how the Army could make partnering an easier and more attractive option, and to determine what the private sector could offer installations. Based on these meetings, Apgar decided that the CVI program as the Army had conceived it had some fundamental problems, including the name. In his mind, "Capital Ventures" gave the wrong focus to the program because it emphasized a venture capital approach which, while important, was a short-term perspective. As he later related, "the Army needed long-term, visionary thinking as well as business savvy and entrepreneurial zeal."²² In addition, Apgar disliked using RFP solicitations and contracts to engage developers because they did not promote a true spirit of cooperation or partnership. Under the RFP process, the Army

would outline ahead of time all of the different specifications that it wanted for the housing and then expect developers to tell them how they would comply with those specifications. Not only was this cumbersome for those responding to the RFP (and expensive, as it took much thought and effort to develop a proposal), it also, in Apgar's mind, was backwards. Instead, Apgar asserted, the private sector should inform the Army how they could construct well-designed and attractive homes for soldiers and their families.²³

Apgar also wanted to see more elements of New Urbanism in the development of installation housing. New Urbanism was an urban design movement that first became popular in the 1980s and increased in influence in the 1990s when a group of architects formed the Congress for the New Urbanism (CNU) in 1993. According to its charter, the movement advocated neighborhoods



FIGURE 4-5. The Columbia Work Group making plans for the Columbia community.

Courtesy of Columbia Archives.

with diverse populations centered around “public spaces and community institutions.” The areas would be pedestrian-friendly and would consist of “architecture and landscape design that celebrate[d] local history, climate, ecology, and building practice.”²⁴

Columbia, Maryland, a planned community built between Baltimore, Maryland, and Washington, D.C., in the 1960s, anticipated many of the tenets of the New Urbanism movement. Conceptualized by planner James Rouse of the Rouse Company, Columbia had a town center at its core and consisted of nine different villages, each with its own name and its own village center. Each village in Columbia also had its own neighborhoods, parks, roads, apartments, town houses, and single-family residences. The goal of Columbia, according to Rouse, was to create “neighborhoods where a man, his wife and family, can live and work and, above all else, grow—grow in character, in personality, in love of God and neighbor and in the capacity for joyous living.”²⁵ The vision and the layout of Columbia, together with New Urbanism tenets, strongly influenced Apgar’s ideas about Army housing. In fact, Apgar had worked for the Rouse Company early in his career. To Apgar and others, such as Joseph Scanga of Calthorpe Associates,

an urban design firm, Army installations were the perfect arena in which to test New Urbanism principles that fostered community, since deployments and frequent re-stationing of troops made it difficult for military neighborhoods to maintain a sense of community.²⁶

In many ways, Apgar’s vision was not far from that of the CVI program. The overall concept—providing the best homes possible to soldiers by teaming with private development—remained the same. Yet Apgar clearly wanted to take privatization in a more complicated direction. As Don Spigelmyer later related, CVI, in its original concept, focused on “small projects, a couple hundred units here and there.” In Spigelmyer’s mind, CVI “really wasn’t that much more creative than MILCON except we had some of the authorities that we could [use] to get [the housing] created.”²⁷ Apgar foresaw the privatization of military housing as an opportunity to foster community development, rather than just to build houses. It was this concept that really distinguished RCI from CVI.

To develop an in-depth construct for how these ideas would work in practice, Apgar established a “skunk works” team at Fort Belvoir in the summer of 1998. This team, which eventually became known as the RCI Task Force, included Ted Lipham, who had been leading the Army’s CVI efforts; Jean Friedberg, who had worked for the Rouse Company and other firms as a consultant; and Don Spigelmyer, who had participated in the DOD “tiger team” and had been a CVI team member.

One reason that Apgar was able to form the team was that in 1998 the DOD reorganized the Housing Revitalization Support Office (HRSO). Although the HRSO had had the responsibility for approving pilot programs and coordinating the privatization process across the military services, the DOD, according to former HRSO director



FIGURE 4-6. Architect’s rendering of the planned Fort Irwin, Calif., Town Center, one of several RCI developments based on the principles of New Urbanism. The town center was completed in July 2011.

Courtesy of Clark Realty Capital.

Joseph Sikes, “sent the people back to the services and told them to do their own projects.”²⁸ After the HRSO was renamed the Office of the Secretary of Defense (OSD) Competitive Sourcing and Privatization Office, it still had an oversight role (involving transmitting lessons learned and coordinating with OMB), but it continued to be the responsibility of each individual service to decide how privatization would proceed.

The DOD decision to let each military service determine how to pursue privatization led Apgar, on behalf of the Army, to put together the RCI Task Force. Throughout the summer and the remainder of 1998, this task force prepared a draft strategy for the Army’s RCI program. According to Apgar, the task force that he assembled with the assistance of the ACSIM, Major General David Whaley, was “a small but exceptionally able team that combined seasoned professionals in the Office of the

Assistant Chief of Staff for Installation Management with others from the Office of the Assistant Secretary of the Army for Installations and Environment and specialist contractors.”²⁹

SWITCH FROM RFP TO RFQ

In addition, the Army convened a “brains trust” of, in Apgar’s words, “nearly everyone in the Pentagon who had anything to do with military housing,”³⁰ to investigate how it could more effectively attract private developers to construct housing on installations. This group met in September 1998 and decided that a Request for Qualifications (RFQ), rather than an RFP, was the best way to achieve what Apgar wanted. In fact, according to Lipham, the Army had already broached the idea of using an RFQ under CVI, but the DOD and Army legal counsel had not found it to be feasible. With Apgar buying in to the RFQ plan and

providing the necessary “horsepower,” the Army decided to try again and, with the aid of Office of General Counsel attorneys, engineers, and housing personnel, it drafted a sample RFQ.³¹

The RFQ became the linchpin of the entire RCI procurement strategy, as developed by the

RCI Task Force. Issued by the Army after an installation had decided to privatize—a decision based on several factors, including the completion of a housing market analysis to determine how many homes were actually needed—the RFQ asked developers to provide a résumé of their



RFP vs. RFQ

Although the Army used a Request for Proposals (RFP) process to select a developer for housing privatization at Fort Carson, the service adopted a Request for Qualifications (RFQ) process for subsequent privatization projects. Typically in an RFP, the originator of the proposal advertises explicit project requirements and then selects a contractor based on how well each bidder’s price offer and work plan match those requirements. With an RFQ, the project owner defines fewer details of the final project, and interested contractors compete with each other by demonstrating their past experience, current expertise, and their preliminary vision for the project. In the RFQ model that the Army adopted for the RCI program, the developer’s level of expertise and design goals are incorporated into the project planning, along with the Army’s priorities and the particular needs of an installation. This takes place through the Community Development and Management Plan (CDMP) process.

In an RFP solicitation process, such as the one the Army used for the CVI project at Fort Carson, companies compete with one another by submitting bids (also called “offers”) describing detailed designs and strategies to accomplish the specifically requested work, as well as documenting their prior

experience and expertise in the field. For most military construction on installations, the Army Corps of Engineers oversaw the RFP process, ensuring that all particulars met the federal regulations that governed contractor selections under RFPs. The Corps’ Omaha District prepared the system that the Corps would use to evaluate and rank the proposals for the Fort Carson housing privatization project, the details of which went into a document called the Source Selection Evaluation Plan (SSEP). Under the SSEP guidelines, the Omaha District would evaluate the proposals, using a three-tiered organizational structure and a multistage selection process. This evaluation mechanism was similar to the selection process in other Omaha District military construction (MILCON) projects during that time.

The RCI program selected the RFQ approach instead of the RFP because the RFQ offered several advantages for Army housing privatization, including reduced costs for bidders, improved project planning, and fewer risks connected to the final CDMP development. In both types of bidding processes, the Army used industry forums as a way to advertise upcoming projects and to generate interest in the development community.

qualifications and their experience in developing similar housing projects.³² Instead of outlining in great detail all that the Army wanted accomplished, an RFQ described in general terms what the Army needed and asked developers to tell the Army how it could accomplish those goals. Respondents thus had to cover their experience and past performance, explain their preliminary concept, outline their financial and organizational capabilities, delineate what financial return they hoped to make, and explain how they would use small businesses as subcontractors.³³

From these submittals, a Source Selection Evaluation Board (SSEB) would select finalists, who would then be asked to construct a more detailed plan for housing development on the installation and subsequently brief others on their visions for the project. Based on these plans and vision briefings, the SSEB would recommend an ultimate partner to the Source Selection Advisory Council (SSAC), consisting of senior level Army and consultant personnel. The SSAC would review the SSEB recommendation, either approve or reject it, and, if it approved, send the recommendation to the Source Selection Authority (SSA), usually a high-ranking Army official, who would make the final selection.³⁴

After the developer had been chosen, the Army would enter into a contract with it to produce a Community Development and Management Plan (CDMP). Based largely on James Rouse’s plans for Columbia, Maryland, a CDMP, in Apgar’s words, would provide “a robust, comprehensive plan for community-building” that essentially outlined “the business and financial plans for each RCI site.” The CDMP included, among other things, a development plan, a financial plan, and an operation, maintenance, and property management plan. According to Apgar, it delineated “all major

programs and activities—including renovation, demolition, construction and operations”—that would occur over the life of the partnership and that necessitated close cooperation between the developer and the Army. The Army still had the opportunity to end the partnership at this point. It provided the developer with \$350,000 to produce the CDMP (which largely built on the partner’s initial proposal), but if the two sides could not agree on the direction of the CDMP, the Army could just pay the \$350,000 and select a new developer.³⁵

If the Army accepted the CDMP (up to 2007, the Army rejected the CDMP developer in only one instance), it entered into a formal partnership with the developer, forming a limited liability partnership or corporation. This partnership would last for 50 years (with an option for an additional 25 years) and the Army would lease the land to the limited liability corporation, which would own the housing. The first 10 years of the partnership would, in general, constitute the project’s first development period, during which the initial construction and renovations would occur and all inadequate housing at that site would be eliminated, by renovation, replacement (demolition and new construction), or just demolition.

To help fund this initial period of development, the developer obtained loans secured through money that the developer received from soldiers’ Basic Allowance for Housing (BAH). Some funds would also accumulate in a lockbox to ensure that sufficient revenue would exist over the life of the 50-year agreement for additional maintenance and renovations, so that at the end of the 50 years, the Army would not find itself again with dilapidated homes. However, the BAH was just one source of funding for RCI projects, albeit the primary one. Army Family Housing Operating funds paid for project development, evaluation,

implementation, and oversight, including Army salaries and consultant costs, while monies from the DOD Family Housing Improvement Fund (reprogrammed from the Army Family Housing Construction Appropriation) were used to cover any obligations scored by the OMB and to fund any gaps in development funds.³⁶

As the RCI Task Force developed the strategy, Apgar reached out to the development community. He had brochures prepared about RCI and made plans for in-person presentations about the concept. He contacted developers through organizations such as the Urban Land Institute and the National Trust for Historic Preservation. When meeting with individuals, he emphasized that the Army had incentives that it could use in its partnerships, including mortgage guarantees and direct loans. Industry representatives were cautious but optimistic about the new program. “We’re turning the corner,” said Paul Taibl of the Business Executives for National Security. But he thought that more progress would be made if the DOD did not “insist on reinventing the wheel [by] designing new real estate contract vehicles and financial instruments.”³⁷

By December 1998, the RCI Task Force had finalized its strategy and Apgar presented it to DOD officials, including Dr. Jacques Gansler, the Undersecretary of Defense for Acquisitions. Gansler provided general support for the concept, allowing Apgar to take it to Capitol Hill as the Army’s new privatization program, replacing CVI.³⁸ Apgar later characterized the program as “an ambitious, 10-year plan ... to privatize Army housing at 43 locations by 2010, representing over 90 percent of our U.S. stock, all using the RFQ.” According to Apgar, there were three major changes in the program. First came a shift in thinking from “housing production to community development.”

Second was a change in business approach from contracting to partnering. Third was the use of RFQs instead of RFPs. In short, Apgar explained, RCI would “create and sustain attractive, comfortable homes in clustered neighborhoods that are safe, clean, and convenient, with the features and amenities enjoyed by the majority of Americans.”³⁹

CONGRESS DEBATES ARMY PRIVATIZATION STRATEGIES

Congress’s initial reception of the plan, however, was lukewarm. Two House committees—the Subcommittee on Military Installations and Facilities of the Committee on Armed Services and the Subcommittee on Military Construction Appropriations of the Committee on Appropriations—raised concerns. U.S. Representative Joel Hefley (R-Colorado), chairman of the Military Installations and Facilities subcommittee, for example, declared that Apgar’s proposal would implement full privatization too quickly, without ensuring that RCI was the proper route to take. According to Hefley, the Army appeared to be “plac[ing] all hopes for recapitalizing and improving military family housing on privatization, without being certain that it will work in all locations.” Congressman Hefley and others believed that the program needed to be tested before it could be accepted as the vehicle to end the Army’s housing woes. “We simply do not know enough about this program to justify the policy decisions which appear to have been made by ... the Army,” he concluded.⁴⁰

Other questions revolved around the issue of control. The House’s Military Construction Appropriations Subcommittee had traditionally had the power to determine how many housing structures would be built at what base. Under RCI, that control would be gone. How could Congress know, many asked, that money used for RCI was being



FIGURE 4-7. U.S. Representative David Hobson (D-Ohio).
Courtesy of Congressional Pictorial Directory, U.S. Congress.

used in the most beneficial way? Would Congress still have any kind of oversight over RCI? These fears were exacerbated by the fact that, as it moved to RCI, the Army placed several MILCON housing projects on hold. This especially upset members of the appropriations committees because projects for which they had appropriated monies were not going forward.⁴¹ As former Vice Chief of Staff of the Army Jack Keane explained, the Army was asking Congress “to give up a significant amount of money that they [could] take credit for in their congressional districts or in their states.”⁴²

Some of Congress’s reluctance stemmed from the nature of the changes that the Army wanted to make. Congressional members were generally not familiar with the RFQ concept and they were therefore uncomfortable with the RFQ process—even though the U.S. Postal Service, the General Services Administration, and state governments had been using that procurement method for

years. Although everything within the RCI program fell under the authorities authorized by the MHPI legislation, some of the concepts, in Ted Lipham’s words, “pushed the envelope,” which again threatened Congress’s comfort level.⁴³

Unperturbed despite the questions, Apgar made plans in the fall of 1998 to announce the RCI program at an annual industry meeting sponsored by the Urban Land Institute in Pebble Beach, California. Ten minutes before he was to take the podium and make the announcement, he received a fax from U.S. Representative David Hobson (D-Ohio), chairman of the House Military Construction Appropriations Subcommittee, forbidding him to announce the program. In Apgar’s words, Hobson thought the plan was “too risky, too fast, and too far reaching.”⁴⁴ After consulting with Bernard Rostker and the Army’s General Counsel, Apgar apologized to the group and said that he could not make his planned announcement. Upset about the matter, Apgar wondered how “a Congressman [could] block a critical, carefully planned meeting with the leaders whom we all hoped would be helping the Army.”⁴⁵ According to Rostker, what Apgar did not understand was that “there was a board of directors and that board of directors was the United States Congress.” As such, Congress “could prevent him from spending a dime.” What he needed to grasp, Rostker concluded, was the necessity of developing congressional support for the program.⁴⁶

Apgar eventually found enough support in Congress to announce the program to another Urban Land Institute conference on January 28, 1999, attended by developers, representatives of lending institutions, and government officials.⁴⁷ Yet Hobson’s opposition continued over the next several months. In March 1999, Rostker met with Hobson about the RCI program, and

the congressman raised several questions. These included why the Army was proposing to privatize all of its housing with RCI when it had not completed any project under the RCI guidelines and why the Army had not requested any funds for traditional military construction of family housing. In essence, Hobson was echoing Congressman Hefley's concern that the Army appeared to be putting all of its eggs in the RCI basket without knowing whether RCI would succeed. "The military housing privatization initiative is a pilot program," Hobson emphasized, but apparently "some in the military have not gotten the message."⁴⁸

Congressman Hobson expected Rostker and Apgar to provide him with answers to these questions in a hearing before the Subcommittee on Military Construction Appropriations, but the night before the hearing commenced he received a letter stating that the Army would be unable to address the concerns. Angered by what he considered to be nonresponsiveness, Hobson first considered canceling the hearing, but then, as he recalled later, decided to hold it so that he could "chew [Apgar] out and shut the hearing down" in a public way.⁴⁹ According to Rostker, Apgar wanted to respond to Hobson's tongue-lashing, but Rostker passed him a note telling him to "just shut up and take it."⁵⁰ After telling the two that he "did not expect to be treated that way," Hobson quickly ended the hearing, declaring that Apgar and Rostker needed to "wait, step back, take a breath, look at this, and try to get it in order. And if that is not enough message," he warned them, "then we are going to have a real problem."⁵¹

Two days after the hearing, Rostker transmitted answers to Congressman Hobson's questions, apologizing for the situation and explaining that Apgar "did not appreciate your need to receive this information before the hearing Wednesday."⁵² The

RCI plan outlined in this response was a drastic curtailment of Apgar's original proposal. According to this report, the Army would now test RCI at five pilot locations: Fort Carson (where privatization was already underway); Fort Hood, Texas; Fort Lewis, Washington; Fort Stewart, Georgia; and Fort Meade, Maryland. The Army later dropped Fort Stewart from the list of pilot projects. Even at these locations, the Army would proceed with caution. Although RFQs would be issued and CDMPs developed, the Army would not implement any specific steps until Congress approved them.⁵³

The plan also declared the Army's intent to use MILCON funds at installations where privatization was not the ideal solution (for example, installations with only a small housing inventory). To keep congressional oversight intact, the Army pledged to keep Congress informed as it proceeded with RCI plans at installations. It would tell Congress of intentions to issue RFQs, intent to award contracts, and details of proposed CDMPs. In this way, it hoped to alleviate congressional fears about the program.⁵⁴

GARNERING SUPPORT FOR RCI

Meanwhile, Apgar faced skepticism from several sources within the Army, including the U.S. Army Corps of Engineers (USACE), civilians in both the OACSIM and Apgar's own Installations and Environment office, and installation personnel. USACE, for example, had been responsible for construction on installations, although its responsibility usually took the form of overseeing contracts with private firms for the actual design and construction of the homes. USACE had also had responsibility for developing RFPs and for all contracting matters under the CVI program. Under the RCI, with the change to RFQs and partnerships, and Apgar's personal program supervision,

this responsibility would largely disappear. After 2001, the Baltimore District of the Corps would function as the center for RCI procurement (it supervised the RFQ and selection process), the Mobile District of the Corps would serve as the Environmental Team responsible for the preparation of documents to comply with the National Environmental Policy Act, and the Norfolk District of the Corps would work as the real estate team for the RCI, preparing real estate documents and supervising boundary surveys and lease compliance assessments. But other districts would have little responsibility. As Rhonda Hayes explained, "the Corps' proper role" in the RCI program caused "a great deal of consternation."⁵⁵ Lipham was a little more frank, stating that Corps personnel were "hell-bent against" the RCI program.⁵⁶

The Directorate of Public Works had also traditionally had housing responsibilities, performing operation and maintenance duties on family housing. But under RCI, operation and maintenance would shift to the developer. Garrison commanders would no longer have direct and sole control of the housing function, as the developer would assume those responsibilities. In essence, Lipham explained, the move to privatization implied to existing housing officials that they were "not doing a good job" and they "fought us all the way."⁵⁷ Such concerns continued to pose difficulties as the RCI program went forward. Looking back on the situation, Apgar considered the concerns understandable, "given the radical departure from past practice represented by our proposals."⁵⁸

Facing these issues, Apgar took a number of steps to redistribute control. He removed the RCI Task Force from the jurisdiction of the OACSIM in August 1998, establishing it as the RCI Program Office within the OASA, I&E and making it responsible only to himself. Apgar characterized this move

as controversial but necessary, so that he could promote creative thinking and innovative ideas about housing.⁵⁹ Prior to that, as Lipham explained, CVI had been "buried under about ... four levels [of bureaucracy] before we got to the Assistant Secretary of the Army."⁶⁰ Each layer had to approve a decision before implementation, making it a difficult and time-consuming process. As one report explained it, "to move a decision from [the OACSIM] to the final decision maker, 12 different leaders had to be briefed and consulted, which led to indecision and confusion." By making the RCI Task Force report only to him, Apgar essentially removed these bureaucratic layers. He also allowed the task force to coordinate directly with installations, rather than through the OACSIM and subordinate commands. According to several observers, these were critical moves, both because they lessened the chance that critics of the program within the Army could kill it and because they allowed for more efficient decision making once the program began in earnest. Moving the program to the Secretariat allowed the Assistant Secretary to discuss matters quickly with the Secretary of the Army, the Chief and Vice Chief of Staff, the Office of General Counsel, and four-star field commanders, as well as with Congress and the DOD.⁶¹

Although moving RCI directly under the Secretariat generated some controversy, it was not a radical change for the Army. In October 1986, Congress had passed the *Goldwater-Nichols Department of Defense Reorganization Act*, which, in the words of an Army annual report, mandated "a variety of organizational and procedural changes upon the military establishment to strengthen civilian authority." These included centralizing certain functions, such as public affairs, research and development, financial management, and information management in the Secretariats of



FIGURE 4-8. General Jack Keane, Vice Chief of Staff of the Army.

Courtesy of U.S. Department of Defense.

each service, as well as overhauling the Army's management structure. In many ways, Apgar's placement of RCI under his control was in keeping with the reorganization act's goal of "expand[ing] the management role of the service secretaries."⁶² The move to the Secretariat also helped facilitate crucial communication with the RCI staff in the early years of the program.

As Apgar remembered, he was driven by the concern that "the program could easily have been derailed or simply withered between late 1998 and acceptance of the four pilot projects." Apgar worried not only that Congress and high Army leaders might kill the program with their lack of support but that industry would tire of

waiting and move on to new interests.⁶³ To keep the program moving, Apgar enlisted the help of two crucial leaders: Vice Chief of Staff of the Army Jack Keane and U.S. Army Forces Command (FORSCOM) Commander General Thomas Schwartz. Keane, who had spent most of his military career as a paratrooper and who had served as commander of the XVIII Airborne Corps, was a willing advocate of RCI.

Having seen firsthand the poor condition of military housing, which he described as having "very little aesthetic value," Keane listened carefully when Apgar approached him with plans for RCI soon after his appointment as Vice Chief early in 1999. Apgar showed Keane the planned community of Columbia, Maryland, whose design had been guided by New Urbanist principles, to provide the general with an example of what he was envisioning, and after that excursion Keane became an RCI champion. Keane's support was crucial. For one thing, he already had a good relationship with Congressman Hobson and helped alleviate some of the congressman's concerns. For another, Keane believed that it was crucial to get the support of the three-star commanders of the Army's operational commands—the XVIII Airborne Corps, located at Fort Bragg, North Carolina; the III Corps, headquartered at Fort Hood, Texas; and the I Corps, located at Fort Lewis, Washington—because the commanders of these three corps were also installation commanders. He was able to explain the program to the three commanders—Lieutenant General Dan McNeill (XVIII Airborne Corps), Lieutenant General Leon LaPorte (III Corps commander), and Lieutenant General Thomas Hill (I Corps Commander)—and emphasized the improvements to soldiers' quality of life that RCI could bring about. With Keane's urging, all three became supportive of RCI in 1999.⁶⁴



FIGURE 4-9. Lieutenant General Thomas A. Schwartz (left) and Major General Amos Malka (right) in 1997.

Courtesy of U.S. Department of Defense.

Perhaps one reason that all three Corps commanders accepted the program so readily was that their own commander—General Thomas Schwartz, who headed FORSCOM—was already an RCI champion. As discussed in Chapter 3, Schwartz had played a key role in getting privatization at Fort Carson off the ground. He supported the program in part because of his belief that the Army had to do something to improve the quality of life of its soldiers and make a concrete effort to show families that the Army truly cared. Early in 1999, Schwartz convened a meeting of his senior officers to discuss RCI and to convey in no uncertain terms that he wanted FORSCOM installations to pursue it. As Ted Lipham remembered, Schwartz told the FORSCOM commanders, "If you don't want to get on board with [RCI], let me know and I'll find you another job because we're going to do this." Soon after, and with the help of General Keane, the FORSCOM installations started to "line

up." Additional help came when Secretary of the Army Louis Caldera told the garrison commanders the same thing—that the Army was embracing the RCI program and that those who did not like it would get reassigned.⁶⁵ By February 2000, Lipham could accurately report to internal and external stakeholders that the program had "the support of the highest levels of the Army."⁶⁶

In addition, Apgar continued to discuss RCI with members of Congress and their staffs, as did Lipham and officials such as Joseph Sikes, Director for the Housing and Competitive Sourcing Office within the Office of the Deputy Undersecretary of Defense for Installations and Environment. These conversations took place both formally and informally. Sikes, for example, remembered a breakfast on Capitol Hill that included "all the senior leadership of Congress, the Deputy Secretary of Defense, the Comptroller, [and] all the senior DOD leadership."⁶⁷ In the course of such discussions, RCI supporters found two champions of the program on the House Military Construction Appropriations subcommittee: U.S. Representative Chet Edwards (D-Texas) and U.S. Representative Norman Dicks (D-Washington). Edwards, who represented portions of North Texas, Central Texas, and the Brazos Valley (including Fort Hood), saw the value in privatizing housing, in part because of his interest in improving the quality of life for Army soldiers and their families. Edwards also had a real estate background: after earning an MBA from Harvard, he had worked for Trammell Crow, a large real estate developer. Dicks, meanwhile, had a legal background. He represented the Fort Lewis community in Congress and understood the importance of RCI to the installation. According to Apgar, both of these congressmen "got it" and they spent a good deal of time in 1999 trying to gain RCI support from other committee members.⁶⁸

CONCLUSION

By the end of 1999, the RCI program and process had been established. Sandy Apgar had changed the focus of the Army's privatization program to communities and, together with the RCI Task Force, had created a vision for family housing on Army installations. The idea was innovative, creative, and controversial. Although Apgar and other Army officials established procedures and offices to protect the fledgling program, doubts persisted. Many members of Congress, and especially of the critical House Military Construction Appropriations subcommittee, wondered how RCI would work in practice, whether it would be too expensive, and how it would affect surrounding communities. Army officials, especially those on installations, were unsure as well, although the support of the Secretary of the Army, the Vice Chief of Staff of the Army, and the FORSCOM commander helped to mitigate those doubts. Yet much work remained to be done to convince those who questioned the program. Throughout 2000 and 2001, three pilot programs would test the RCI program, producing concrete results and beginning to answer the questions that lingered.

ENDNOTES TO CHAPTER 4

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4. FY 1998 MILCON Appropriations Hearings, 209.
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17. Quoted in Bernard Rostker and Charles Nemfakos interview by Matthew Godfrey, 17 July 2007, Arlington, Va., Transcript, 4. See also RCI group interview, 14.
18. Ted Lipham telephone interview by Paul Sadin, 13 October 2008, Transcript, 13.
19. Quoted in RCI group interview, 14. See also Rostker and Nemfakos interview, 5-7.
20. The Honorable Mahlon Apgar, IV, "Remarks Following the Presentation of the James Felt Award for Creative Counseling, The Counselors of Real Estate, Dallas, Texas, November 22, 2002," 2, document provided by Sandy Apgar.
21. See William M. Welch, "Army Housing No Longer Homely," *USA Today*, 12 October 2005; and Margot Adler, "Behind the Ever-Expanding American Dream House," National Public Radio, *All Things Considered*, 4 July 2006, www.npr.org/templates/story/story.php?storyId=5525283.
22. Apgar interview, 3-5.
23. Apgar interview, 5.
24. Congress for the New Urbanism, "Charter of the New Urbanism," http://www.cnu.org/sites/files/charter_english.pdf.
25. Quoted in Joseph Rocco Mitchell and David L. Stebenne, *New City Upon a Hill: A History of Columbia, Maryland* (Charleston, S.C.: History Press, 2007), 45. See also pp. 71-72.
26. William Hamilton, "New Urbanism: It's in the Army Now," *New York Times*, 8 June 2006.
27. RCI group interview, 6.
28. Joseph Sikes interview by Matthew Godfrey, 20 July 2007, Crystal City, Va., Transcript, 2. See also Apgar interview, 6-7, 13-14; and "Response to GAO Questions," 11 January 2000, Folder: Congress (incl. sub-folders), Share drive database, RCI Program Office, Crystal City, Va. Hereafter cited as RCI Office.
29. Sandy Apgar personal communication with Matthew Godfrey, 26 March 2009.
30. "Residential Communities Initiative (RCI), Integrated Process Team (IPT) Meeting, Opening Remarks by the Honorable Mahlon Apgar IV, Assistant Secretary of the Army for Installations and Environment, January 19, 2001," 3, document provided by Sandy Apgar.
31. Lipham interview, 4-5, 8.

32. A report to the U.S. Government Accountability Office (GAO) explained that the Army first used an “Econometric Model” to determine whether there was a housing deficit at an installation. If a deficit was suspected, the Army would hire private experts to perform a housing market analysis. If this showed a deficit as well, the Army would ask the Army Audit Agency to validate the deficit. According to the report, “This provided three independent analyses of the housing market.” See “Response to GAO Questions,” 11 January 2000. For more information on the housing market analysis, see “Army’s Residential Communities Initiative—Questions & Answers, as of April 2002,” 32–33, Folder: Congress (incl. sub-folders), Share drive database, RCI Office.
33. “Army Names RCI Partner,” *Soundoff!*, 8 March 2001.
34. Bill Mysliwiec and Matthew Keiser interview by Matthew Godfrey, 15 February 2007, Crystal City, Va., Transcript, 12–13; and Apgar interview, 6–7. The SSEBs and the RCI Procurement Team (originally set up to support the Integrated Process Team [see below]) fell under the jurisdiction of Headquarters, U.S. Army Corps of Engineers.
35. Apgar, “Remarks Following the Presentation of the James Felt Award,” 5. See also RCI group interview, 11–13, 24; and “Response to GAO Questions,” 11 January 2000.
36. “Response to GAO Questions,” 11 January 2000.
37. Quoted in Sandra Fleishman, “Army Tries to Recruit Developers,” *Washington Post*, 27 November 1999.
38. Apgar interview, 8.
39. Quoted in House Subcommittee on Military Installations and Facilities of the Committee on Armed Services, *Hearings on National Defense Authorization Act for Fiscal Year 2000—H.R. 1401 and Oversight of Previously Authorized Programs Before the Committee on Armed Services, House of Representatives, One Hundred Sixth Congress, First Session, Military Installations and Facilities Subcommittee Hearings on Division B—Military Construction Authorizations (H.R. 1401)*, 106th Cong., 1st sess., 1999, 298–300. Hereafter cited as FY 2000 MILCON Authorization Hearings.
40. FY 2000 MILCON Authorization Hearings, 292.
41. See RCI group interview, 15; Apgar interview, 10; and Sikes interview, 13–14.
42. Keane interview, 3–4.
43. Lipham interview, 10. See also “Residential Communities Initiative (RCI), Integrated Process Team (IPT) Meeting, Opening Remarks by the Honorable Mahlon Apgar IV,” 3.
44. “Residential Communities Initiative (RCI), Integrated Process Team (IPT) Meeting, Opening Remarks by the Honorable Mahlon Apgar IV,” 3.
45. Apgar interview, 9–10.
46. Rostker and Nemfakos interview, 5.
47. See Honorable Chet Edwards of Texas, “Honoring the United States Army’s Residential Communities Initiative Upon Its 10th Year,” *Congressional Record—Extension of Remarks*, 28 January 2008, E82, thomas.loc.gov.
48. House Subcommittee on *Military Construction Appropriations of the Committee on Appropriations, Military Construction Appropriations for 2000: Hearings Before a Subcommittee of the Committee on Appropriations, House of Representatives, One Hundred Sixth Congress, First Session*, 106th Cong., 1st sess., 1999, 213. Hereafter cited as FY 2000 MILCON Appropriations Hearings.
49. U.S. Representative David Hobson interview by Paul Sadin, 24 June 2008, Washington, D.C., Transcript, 6.
50. Rostker and Nemfakos interview, 5.
51. FY 2000 MILCON Appropriations Hearings, 289.
52. Bernard D. Rostker to The Honorable David L. Hobson, 19 March 1999, Copy in FY 2000 MILCON Appropriations Hearings, 267.
53. Attachment to Rostker to Hobson, 19 March 1999, Copy in FY 2000 MILCON Appropriations Hearings, 268.
54. Attachment to Rostker to Hobson, 19 March 1999, Copy in FY 2000 MILCON Appropriations Hearings, 269, 276.
55. Quoted in RCI group interview, 15. See also Mysliwiec and Keiser interview, 8; Dillard Horton, “Residential Communities Initiative (RCI) Information Executive Brief, Norfolk District,” 14 January 2004, PowerPoint presentation, Documentum database, RCI Office; ASA-I&E RCI Real Estate Project Delivery Team, “Draft RCI Real Estate Handbook,” 16 January 2004, Chapter 2, page 2, copy in Documentum database, RCI Office; and “RCI Program Provides Housing for Army Families,” *Engineer Update* (U.S. Army Corps of Engineers), April 2007, <http://www.hq.usace.army.mil/cepa/pubs/apro7/story3.htm>.
56. Lipham interview, 5–6.
57. Lipham interview, 6.
58. Apgar interview, 17.
59. Sandy Apgar personal communication with Matthew Godfrey, 26 March 2009.
60. Lipham interview, 4. See also Joyce VanSlyke personal communication with Matthew Godfrey, 24 March 2009.
61. “Question One: Why operate and manage the housing privatization program from the Secretariat?” Folder: LEAN SIX SIGMA, Shared Drive database, RCI Office. See also Apgar interview, 13; RCI group interview, 13–14; and Joyce VanSlyke interview by Matthew Godfrey, 27 June 2008, the Pentagon, Transcript, 3.
62. Quoted in Mary L. Haynes, *Department of the Army Historical Summary: Fiscal Year 1987*, ed. Cheryl Morai Young (Washington, D.C.: U.S. Army, Center of Military History, 1995), 69–71, 76.
63. Apgar interview, 11.
64. Keane interview, 2, 6–7.
65. Lipham interview, 7, 19. See also Schwartz personal communication with Paul Sadin, 2 May 2008; and Apgar interview, 11.
66. “Initiative to Improve Housing On Post,” *Soundoff!*, 17 February 2000.
67. Sikes interview, 14.
68. Apgar interview, 8, 10.

FIGURE 5-1. RCI housing, Presidio of Monterey, Calif.
Courtesy of Clark Realty Capital.



CHAPTER FIVE

The Beginning of the RCI Pilot Projects, 1998–2001

Under the leadership of Assistant Secretary of the Army for Installations and Environment (ASA, I&E) Mahlon “Sandy” Apgar, IV, the U.S. Army had begun developing an effective approach to getting private developers involved in the construction and operation of on-post family housing. Yet the newness of the program, coupled with Apgar’s aggressiveness in promoting it, exacerbated congressional concerns. Facing opposition from Congress, Army leaders decided to implement three RCI pilot programs to test the MHPI legal authorities and determine whether or not RCI would work. The success of the pilots would largely determine whether the program had enough congressional support to proceed to full implementation. As the pilots progressed, numerous questions arose about the RCI program specifically and privatization in general. Congressional committees kept a close eye on the program, while those on the ground tried to work through issues and develop plans, although they

had no real templates on which to draw. Carrying out the pilot programs and addressing the issues they produced were critical for the success of the RCI program.

At the same time, the redirection of privatization energy toward the RCI model that the pilot programs embodied spelled the end of the Capital Venture Initiatives (CVI) vision, at Fort Carson and elsewhere. Apgar was intent not just on building houses but also on offering “ancillary facilities”—such as school, community centers, shops, and recreational and cultural facilities—that would cement a sense of community.

SELECTION OF THE PILOTS

Privatization of family housing was only one of three methods that the U.S. Department of Defense (DOD) as a whole hoped to use to improve housing for service members. Its other two options were to use traditional military construction (MILCON) and to raise service

members' Basic Allowance for Housing (BAH) to levels that allowed soldiers to afford quality off-post housing. To accomplish the latter, Secretary of Defense William Cohen announced an initiative on January 6, 2000, "to eliminate service members' out-of-pocket costs for off-base housing in the United States."¹ The initiative provided for the DOD to move \$3 billion into the BAH program between 2000 and 2005, each year increasing the amount that service members received as their BAH until the funding covered all out-of-pocket costs. However, since existing legislation mandated that BAH payments could only equal 85 percent of the average cost of housing in a community, the DOD needed specific legislation to eliminate all out-of-pocket housing costs.

Because the RCI program proposed using soldiers' BAH as a rental stream for developers, and because soldiers living off-post relied on BAH to pay for their housing, any proposal to increase the BAH positively affected RCI as well—both in terms of financing the program and in terms of the demand for housing. As Congress examined the proposal to elevate BAH levels, it questioned the effects on RCI, specifically, whether increases would reduce demand for on-post housing. Army officials responded that they would continue to conduct Housing Market Analyses (HMAs) at installations to determine how much on-base housing was necessary.² They also noted that increasing the BAH would make more money available to developers for RCI construction and renovation.³ Because soldiers would obtain quality-of-life benefits by receiving more BAH, the *National Defense Authorization Act for Fiscal Year 2001* (passed in October 2000) implemented the department's recommendation. That same piece of legislation also extended the life of the MHPI authorities to 2004.⁴

The BAH increase had an unintended consequence at Fort Carson: it created a flood of additional income for development company J.A. Jones, which had based its bid on a more conservative estimate of the amount of rental income from the project.⁵ Some Army officials, together with U.S. Representative David Hobson (D-Ohio), were "outraged" at the amount of additional revenue it would provide to J.A. Jones over the 50 years of the contract.⁶ Indeed, the situation seemed to confirm a congressional worry that the program would turn out to be a boondoggle that fleeced the taxpayers and the military and lined the pockets of private developers—one of the reasons that Congress eliminated the Wherry Housing program of the 1940s and 1950s.⁷ In a 2008 interview, Hobson stated that in the cases of the early RCI pilot projects the Army and Congress tried to make the contracts "triple net lease so they [contractors] couldn't steal the money away. The contractor could make some money, but we did not want them to make too much."⁸ Accordingly, the increased BAH eventually prompted a restructuring of the original Fort Carson housing contract.

Notwithstanding congressional qualms that RCI might be too good a deal for developers, Assistant Secretary Apgar and the RCI Task Force continued their efforts to implement the RCI concept at a select few installations. Initially Apgar and the task force targeted four posts: Fort Hood, Fort Lewis, Fort Meade, and Fort Stewart.⁹ Fort Stewart eventually was dropped from consideration and in July 1999 Congress approved using Hood, Lewis, and Meade as the pilot projects.¹⁰ Apgar later described how these pilots were chosen. Staffers within his Installations and Environment office just wanted "the next four [scheduled] MILCON housing projects as the pilots for RCI." Apgar disagreed and instead asked his staff and Jones Lang



FIGURE 5-2. Older, pre-RCI duplex in the Clarkdale development at Fort Lewis.

Courtesy of U.S. Army.

LaSalle (JLL) consultants to list 20 possible installations, taking into account "the geography and market conditions ... the Army's basing network ... the existing infrastructure, and several other criteria." Based on the criteria, three installations stood out: Fort Hood, because it had the strong backing of U.S. Representative Chet Edwards (D-Texas), as well as the support of Army leadership at the installation; Fort Lewis, because it was "one of the Army's real estate crown jewels"; and Fort Meade, because it "housed multiple agencies and was set in a very strong regional market."¹¹

Others remembered additional reasons for the selection of Hood, Lewis, and Meade. For one thing, privatizing these large installations would enable the Army to improve 13 percent of its housing inventory. For another, the installations taken together presented "a wide diversity of market conditions associated with military housing." Fort Hood was located in the isolated community of Killeen, Texas, for example, while Fort Meade was in a major urban area between Baltimore, Maryland, and Washington, D.C.¹² The fact that the installation commanders at both Fort Hood (LTG Leon LaPorte) and Fort Lewis (LTG James Hill) embraced privatization helped as well. As Rhonda

Hayes, now the Director of Capital Ventures in ASA, IE&E, said, they were "raising their hand, saying we'll do it."¹³ Finally, all three installations had housing managers—Robert Erwin at Fort Hood, Louis Bain at Fort Lewis, and George Barbee, working for the Military District of Washington to guide the RCI project at Fort Meade—who were committed to thinking outside the box to solve their housing problems. Barbee called RCI "a history-making event," that allowed him and his counterparts "to provide for our military members the same type of housing that the people that they defend live in."¹⁴

Because several members of Congress, especially Congressman Hobson of the House Subcommittee on Military Construction Appropriations, were concerned with the fast pace originally proposed for RCI, the Army assured Congress that it would proceed "cautiously" with the pilots. Each site would undergo a project planning phase in which the installation would work with the selected partner to develop the Community Development and Management Plan (CDMP). Undersecretary of the Army Bernard Rostker, in his response to questions on the topic from Congress, asserted that Army officials, with the advice of financial consultants, would "ensure that the plan is well conceived, comprehensive and consistent with the authorities provided by Congress."¹⁵ Once the CDMP was completed, the Army would decide, in consultation with Congress, whether or not to proceed with privatization on a case-by-case basis. The Army's strategy for the pilot programs would therefore be relatively "low-risk."¹⁶

In going forward with the pilots, the RCI Task Force sought to apply lessons learned from the Fort Carson project, even though Carson was being completed under the CVI program. The biggest lesson learned from Fort Carson, in the mind of Army officials, was that the Request for Proposals

(RFP) process did not work very well and that it was necessary to switch to a Request for Qualifications (RFQ) process. But the Army also believed that the success of the Fort Carson endeavor demonstrated the need to communicate with outside interests and stakeholders, such as school districts and local government officials.¹⁷

Another lesson learned from Fort Carson was that privatization cost more money than its supporters had originally estimated. When the Army submitted its budget request for Fiscal Year (FY) 2000, the service did not know how expensive the Fort Carson effort would be. When those figures became available, Army officials realized that they had significantly underestimated the costs of privatization. In order for the three RCI pilots to succeed, the installations would need a higher level of program oversight, more project managers, and more consulting time, all of which would require additional funding. A Congressional information paper concluded that “the Army’s original estimates were significantly lower than that which is now required.”¹⁸ Assistant Secretary Apgar was more specific, stating that the original budget did not include funds for monitoring the Fort Carson project; for negotiating CDMPs at Forts Hood, Lewis, and Meade; for conducting lessons-learned sessions; and for adequate Army staff and consultants to respond to requests from Congress and private industry and to develop policies and procedures.¹⁹

In November 1999, Apgar discussed with Undersecretary Rostker the additional funds needed. Although Rostker did not approve an increase in staffing for the projects, he did support reprogramming \$6.1 million from the Army Family Housing Operations budget for the RCI program’s use, primarily to cover JLL consulting costs. In January 2000, Rostker and Apgar visited

Congressman Hobson at his home in Springfield, Ohio, to discuss the funding issue and RCI in general. Although Rostker later maintained that the meeting removed a lot of Hobson’s discontent with RCI, the congressman still had some reservations about the program. After Rostker sent a letter to Hobson notifying him that the reprogramming would “keep our program on schedule and ensure its success,” Hobson responded that the Army needed to make a formal reprogramming request to the congressional defense committees before any transfer could occur.²⁰

The Army made its formal request on February 11, 2000.²¹ However, the Senate Subcommittee on Readiness and Management Support of the Armed Services Committee opposed the transfer of \$6.1 million if it would be used only to fund consultant costs.

At about this same time, the Army reprogrammed \$8.4 million “from estimated savings within the Army Family Housing Operations Utilities account to fund the RCI program.” This money had originally been requested in the Army Family Housing Operations account in the President’s FY 2000 budget, but Congress had removed it from that account in the actual appropriation. The Army had then reduced its RCI budget by \$8.4 million, making it zero for FY 2000. In order to keep RCI going, the Army reprogrammed that amount in October 1999. According to Apgar, because that action “was below the threshold required for Congressional notification,” it was an action that the Army could take without going through Congress.²²

Clearly, however, the Senate’s opposition to the transfer of the \$6.1 million indicated that there was still some work to do to convince Congress of the need for the requested funds. When Apgar appeared at hearings of the various military subcommittees in March 2000, the

reprogramming request was a topic of discussion. U.S. Representative Joel Hefley (R-Colorado), chairman of the Military Installations and Facilities Subcommittee, expressed concern that the Army was accruing large consultant costs that far exceeded what the U.S. Air Force and the U.S. Navy were paying. Hefley also did not want to transfer money out of the Army Family Housing Operations account because most of that account was already obligated. Apgar responded that the consultant costs were justified, especially because RCI was a “very complex, very innovative and ... largely unprecedented program.” He explained that, based on the Fort Carson figures, the Army now estimated that it would cost \$18.1 million to take the Carson, Hood, Lewis, and Meade projects through the award and planning stages. For what the Army was getting, Apgar suggested that those costs were quite reasonable and of “very good value.” In the end, he thought that there had been “some mythology about this issue to date.”²³

The House Subcommittee on Military Construction Appropriations also expressed concern about the reprogramming of funds, especially in terms of consultant costs. Yet after Apgar informed the subcommittee that the Army could not go forward with the Hood, Lewis, and Meade pilots until the reprogramming was approved, Representative Edwards, who represented Fort Hood, and U.S. Representative Norman Dicks (D-Washington), who represented Fort Lewis, urged the other committee members to support the request and to act on it expeditiously.²⁴

Despite Edwards’ and Dicks’ pleas, the other committee members did not immediately approve the reprogramming request. Hobson requested more information on March 15, which Apgar provided, reiterating what items the Army’s FY 2000 budget did not include. Apgar also provided



FIGURE 5-3. Chet Edwards (right), U.S. Representative from Texas’ 11th District, and Colonel Michael Pratt touring a renovated home during the first phase of military housing privatization at Fort Hood, Tex., in 2002.

Photograph by Steve Bibiano. Courtesy of U.S. Department of Defense.

detailed financial information on the consultants that the Army used, as well as the products and services that they provided.²⁵ This information satisfied the House subcommittees, but in April 2000 U.S. Senator Conrad Burns (R-Montana), chairman of the Senate Subcommittee of the Committee on Appropriations, asked the same questions as Hobson. He received the Army’s answers later that month and, in June 2000, Burns’ subcommittee approved the reprogramming request, as long as no funds were obligated until the Office of the Secretary of Defense (OSD) had re-reviewed the request. The OSD’s review occurred soon after and, on June 19, 2000, the Army received approval to obligate the funds, thereby making them available for distribution.²⁶

The drawn-out negotiations over the reprogramming effort frustrated Apgar and others who were anxious to move forward with RCI. As the

subcommittees continued to ask questions, Apgar's aggravation became apparent. In a meeting with the House Subcommittee on Military Construction Appropriations on March 15, for example, Hobson asked for another breakdown of the reprogramming request. Apgar replied, "We've spent hundreds of hours [responding to questions], but every time we submit [answers] we get more questions."²⁷ The reprogramming request clearly raised tensions on both sides.

Differing perceptions of RCI's economic benefits contributed to these tensions. Apgar claimed that, under RCI projects, the Army would realize savings of \$100,000 per house and that it could "leverage" its "tight military construction budgets" since "for every dollar of public funding, private investors will provide \$10 or more."²⁸ A look back on these comments some 10 years later reveals that Apgar's predictions were correct. But at the time he made them, many disputed the rosy economic outlook, claiming that the Army and the entire DOD were overstating the life-cycle cost savings and the leveraging effect. In fact, however, a 2000 General Accounting Office (GAO) report suggested that the RCI program was cost-effective: it concluded, after examining the two privatization projects already awarded and another 12 that were approved for solicitation, that even if life-cycle cost analyses for the projects were "incomplete, inaccurate, or inconsistently prepared," most privatization projects would generally save around 11 percent over traditional military construction. That was true despite the fact that some of the projects would cost more than traditional military construction.²⁹ Congress also questioned whether the 10-to-1 leverage ratio was really accurate. However, the Army consistently computed the leverage ratio using the OSD definition and found that the RCI program had

exceeded the 10 to 1 ratio for a number of years. For example, at the end of FY 2001, the ratio was 23 to 1, and then reached a high of 27 to 1 at the end of FY 2002.

However, the ratio has decreased over the years since 2002 because of the equity that the Army put into existing projects to eliminate the deficits. In most of those cases, the contributed funds could only be leveraged at 1 to 1. Therefore, as funds have been added, the annual leverage ratios have decreased accordingly to a recent low of 6.6 to 1 at the end of FY 2010.³⁰

The amount of money that the Army was paying to consultants remained a sensitive subject throughout 2000. In February 1999, the Army had entered into a contract with JLL—a global real estate financial and investment services firm—to provide help negotiating with private developers.³¹ In the eyes of Army officials, consultants provided "high-level skills/expertise" in financial matters that the government did not have. A list of consultant products and services prepared by the Army indicated how integral consultants were to the RCI program. It showed that, among other things, they helped prepare RFQs; provided media outreach; developed analytical models and scenario developments for pilot programs; planned and executed industry forums; supported the Integrated Process Team (discussed below); provided due diligence at the pilot programs; trained those sitting on Source Selection Evaluation Boards (SSEB); helped installations conduct CDMP negotiations; assisted with transitions to RCI partners; and helped with closings.³² Don Spigelmyer explained that it was "essential to have the appropriate skills and expertise in place to ensure the government is getting a fair deal" in negotiating contract terms with private companies.³³ JLL consultants played a critical role by providing the necessary expertise, which the



FIGURE 5-4. Townhouse-style family housing prior to RCI renovation of the McNair neighborhood at Fort Hood.

Courtesy of Lend Lease.

government RCI team did not have, in managing commercial real estate and financing deals with dollar values in the hundreds of millions over the course of 50 years. JLL also became "instrumental in developing the Portfolio and Asset Management program for the Army."³⁴

However, Congress considered the amounts that the Army was paying to JLL to be exorbitant. Each time Apgar or other Army officials appeared before congressional committees to discuss RCI, they faced questions from congressional members about consultants and their costs, especially questions about why the Army was spending more on consultants than the other military services were.³⁵ Specifically, Congress questioned how many

consultants worked on RCI (as of April 2000, the number was 10 full-time employees); whether a contract selecting JLL as the consulting firm had been competitively bid (the answer was "yes"); and how the Army justified spending more for contractors than the Navy or the Air Force.³⁶ Because of consultants' indispensable expertise, the Army considered their costs—which it estimated at \$800 per home—both necessary and reasonable. In the large scheme of things, the costs were "relatively minor."³⁷

FORT HOOD (TEXAS)

After Congress approved the reprogramming request, the Army had both the funds and the authority to proceed with the pilots. The first pilot

to receive attention was Fort Hood, Texas, which the CVI team had originally considered for privatization under the CVI program and which was the largest military installation in the United States.

Fort Hood encompassed approximately 217,000 acres and housed two Army divisions: the 1st Armored Cavalry and the 4th Mechanized Infantry. Founded as Camp Hood in the 1940s, it became Fort Hood in the 1950s. Located 60 miles north of Austin and 50 miles west of Waco, Texas, Fort Hood had a total area population of approximately 245,000, including on-post residents. As of 2001, approximately 42,500 military members were assigned to duty at Fort Hood. Approximately 25,000, or 60 percent, of the soldiers had families, and nearly 12,000 civilians were employed on the installation in various roles, including DOD employees, contractors, and volunteers. Approximately 33,000 military retirees, along with 38,000 family members of retirees and deceased soldiers, were also living in the area surrounding Fort Hood.³⁸

Prior to implementation of the RCI program, there had been other efforts to privatize Fort Hood family housing. Under both the Wherry program of the first half of the 1950s and the Capehart program of the second half of the 1950s through 1962, the Army had contracted with private developers for the construction of new housing. In addition, the Army built Liberty Village, a Fort Hood housing community, under the Section 801 program. According to Carol Anderson, Chief of Housing Services at Fort Hood, “Fort Hood has experienced every privatization initiative dating back to the late ’40s.”³⁹ In 1995, Hood was one of four installations deemed ready for the CVI program. The Army prepared a concept plan, under which it would enter into a limited partnership to construct 200 four-bedroom homes for junior non-commissioned officers.⁴⁰ Little other planning occurred until 1997.

In 1997, Fort Hood officials again considered using the CVI program to privatize Fort Hood housing, in part because the cost to improve and renovate housing on the installation was estimated to be at least \$300 million. Financing such renovations and construction through traditional MILCON appropriations meant that it would take the Army 30 to 40 years to complete the necessary improvements. In a 1999 local newspaper article, Fort Hood’s garrison commander, Colonel David Hall, explained the advantage of privatization: “We want a private developer who will come in and not only spend that money year to year maintaining and keeping up the standards that we have been doing, but we want him also to leverage that capital to improve the quality of life.”⁴¹ According to Hall, normal upkeep of the houses was not the root of the problem, since the soldiers’ level of discipline ensured that they would maintain their homes. “It’s the things you don’t see like the sewer and water systems,” Hall stated.⁴² In addition to the support of Hall, Fort Hood also had the backing of two other high officials. General Thomas Schwartz, the U.S. Army Forces Command (FORSCOM) commander, had been involved with early privatization discussions, including the CVI privatization of Fort Carson, and was a strong proponent of RCI.⁴³ General Leon LaPorte, who served as commander of the 1st Cavalry Division and was later the installation commander for Fort Hood, also supported the idea of privatization for the base.⁴⁴

Under CVI, the original plan was to use an RFP developed by the Fort Worth District of the U.S. Army Corps of Engineers (USACE) to privatize more than 5,000 homes. The developer would maintain 4,000 of those homes, demolish 700, and build 1,000 new ones. Robert Erwin, who led the CVI process at Hood, explained that privatization was necessary because most of Fort Hood’s housing

had been built at least 30 years earlier. According to Erwin, the installation required 1,000 four- and five-bedroom homes for its enlisted personnel and these needed to be constructed as quickly as possible—“not in the 60 or more years it would take under the normal appropriations process.”⁴⁵

On March 3, 1998, the Army held an industry forum in Killeen, Texas, for the Fort Hood CVI project. Nearly 200 representatives from the private sector, the military, and state and local governments attended. Developers inquired about various aspects of the program, including what the tax situation would be if they built on government land. They also asked about the applicability of *Davis-Bacon Act* wage requirements and who would be responsible for road infrastructure within the development. At the end of the forum, Dr. Rebecca Griffith, Corps Program Manager, announced that the RFP for the Fort Hood project would be issued in August 1998 with a potential award by March 1999.⁴⁶

However, the Army never issued the Fort Hood RFP. When Apgar took Army privatization down the RCI path, Fort Hood became an RCI project and Army staff had to rework plans for housing privatization there to fit the new RFQ framework. To begin the RCI process, the Army determined that nearly 5,000 of the existing homes at Fort Hood needed renovation or replacement within the first 10 years of the project.⁴⁷ During the initial decade of construction, the Army would require the developer to construct a maximum of 1,149 new homes to eliminate the housing deficit, meaning that enough housing would then exist at Hood, on and off post, to adequately house all of the soldiers with families stationed there. As part of the development plan, the Army and the developer would work together to verify that these original figures accurately reflected Fort Hood’s

housing needs. Expansion of the installation’s housing stock beyond the 1,149 homes was not authorized.⁴⁸ Apgar also wanted to see developers construct ancillary facilities on the installation, defined by Ted Lipham, head of the RCI Task Force, in a New Urbanist, community-oriented context, as “small-scale shopping, entertainment and other appropriate, profit-making enterprises with not-for-profit recreational and cultural activities.” Apgar proposed that the Army “reinvest a share of the total profits in local, family-oriented facilities and services that could not be privately financed,” although he did not define what the term “profits” meant.⁴⁹

After conducting the HMA, the Army held another industry forum in December 1998 in Dallas, Texas. More than 250 people attended the event, including developers, property managers, lenders, and representatives from government and the military services. The forum focused on both the Fort Hood project and on the RCI program in general. Lieutenant General LaPorte gave a presentation on Fort Hood, informing participants that out of the 40,000 soldiers at the installation, “62 percent are married, 86 percent are male, 98 percent have high school diplomas, and 76 percent of sergeants and below have dependents.” Garrison Commander Colonel Richard Craig also made comments, while Herman Bulls, the managing director of LaSalle Partners (a forerunner to JLL), discussed the need for all parties to come to agreement on how the privatization process would work. According to a report about the meeting, the Dallas forum facilitated communication between the Army and the private sector.⁵⁰

In December 1998, the Army notified Congress of its intention to issue Fort Hood’s RFQ. However, Congress was still skeptical about the entire RCI program. Its members were especially concerned

about Apgar's commercial development proposals. Such development did not sit well with the Army and Air Force Exchange Services (AAFES), whose members saw RCI as infringing on AAFES activities. AAFES therefore complained loudly to Congress about the construction of ancillary facilities. Congress then put RCI on hold until those issues could be resolved, and work on the Fort Hood project (and preliminary planning for the Lewis and Meade pilots) essentially stopped.⁵¹

For the next several weeks, the Army attempted to address the ancillary facilities issue. Notes from the RCI Task Force indicate that Apgar and other RCI staff met several times with members of Congress and their staffers. Apgar and his staff also prepared a letter to Congress redefining Apgar's vision of ancillary facilities as those "integral to a viable contemporary community, such as schools, community centers, childcare facilities, indoor and outdoor recreational facilities, and storage facilities."⁵² Apgar believed that the MHPI legislation provided the authority for such endeavors, and he committed in the letter to ensuring that such facilities did not compete with off-post activities or with AAFES, the Defense Commissary Agency, or Morale, Welfare and Recreation (MWR) facilities.

By the end of March 1999, congressional members seemed mollified and Congress indicated that it would allow Fort Hood to go forward on its RCI journey. The Army then finalized the Fort Hood RFQ and released it on August 6, 1999.⁵³ No other installation had used the RFQ process, so there were no examples for Fort Hood personnel to follow. Apgar, members of the RCI Task Force, and JLL consultants, as well as Robert Erwin and the Fort Hood housing staff, all contributed advice to the USACE Headquarters in the preparation of the draft RFQ.⁵⁴

Upon completion, the Fort Hood RFQ outlined in general terms what the Army wanted to achieve with a private development partnership at Fort Hood. It also provided information about Hood and the surrounding area. According to the RFQ, the developer's responsibility would be to renovate existing housing and to construct new homes in order to "ensure that eligible soldiers and their families have access to quality, attractive, and affordable housing." The developer would also have to construct "ancillary supporting facilities that enhance the Installation's residential community," such as tot lots, daycare centers, and community centers. In addition, the developer would be responsible for the management and maintenance of the installation's housing inventory.⁵⁵ Specific details about how the developer would accomplish these purposes would come with the development of the CDMP.

In the summer of 2000, after receiving eight applications, the Army selected the Fort Hood developer, making the award to a partnership of Actus Lend Lease, which would be responsible for construction, and Trammell Crow Residential, which would manage the properties. Fort Hood conducted the official signing ceremony on August 8, 2000, with Apgar, Congressman Edwards, and Lieutenant General LaPorte in attendance.⁵⁶ Actus and Trammell each had years of collective experience in both construction and property management. Actus Lend Lease was a joint venture between Lend Lease Projects, Inc. (a property management company based in Australia), and Actus Corporation, a California company formed in 1999 specifically to construct housing for the military.⁵⁷ Trammell Crow Residential, meanwhile, formed in 1977 as an offshoot of the Trammell Crow Company, a national development firm. It had expertise in developing, constructing, and acquiring multi-family rental and condominium

communities throughout the United States.⁵⁸ According to Apgar, both Actus Lend Lease and Trammell Crow were prominent fixtures in the development and property management fields.⁵⁹

The Actus Lend Lease/Trammell Crow team offered several strengths to the Fort Hood RCI project, including a recognition that the most important housing deficit at Fort Hood was for junior enlisted personnel (Privates, pay grades E-1 and E-2, and Privates First Class, pay grade E-3). The team also had several creative ideas about ancillary facilities as well as a commitment to customer satisfaction.⁶⁰ Matthew Keiser, procurement attorney for the Office of General Counsel, USACE Headquarters, remembered that the team's conceptual design was given substantial weight, noting that it featured "fancy concepts," including installing a lake in one of the communities.⁶¹ As Fort Hood RCI specialist Robert Erwin explained, "they were the best qualified with the best overall ... deal for the Army."⁶²

The official name of the joint venture between Actus Lend Lease and Trammell Crow was Fort Hood Family Housing, LP, and the Army contracted to pay this entity \$350,000 for the preparation of the CDMP.⁶³ Writing the CDMP involved personnel such as Michael Nix of Fort Hood's Housing Engineering Support Branch (who brought a vast knowledge of maintenance and existing home renovation) and Steve Schlabach of the Army Contracting Agency (who helped develop reporting requirements and other aspects of business management).⁶⁴ In addition, the Corps of Engineers provided support for the CDMP, and as many as five persons from JLL assisted with the financial aspects.⁶⁵

As they began the CDMP process, Fort Hood Family Housing and the Army were once again breaking new ground, as no CDMP had been

completed up to that point. Therefore, the Army relied heavily on JLL consultants for help in evaluating real estate and financial matters, even though, according to Erwin, JLL's private-sector experience "wasn't exactly a fit because we were introducing into this process a military culture that they weren't used to." With JLL's help, however, Fort Hood Family Housing successfully produced a CDMP and the corresponding legal documents. Erwin remembered that the support and participation of high-level officials (including Apgar) were very important to the process, as was the fact that these officials gave Erwin the flexibility to construct a workable plan.⁶⁶

Even with the involvement of senior leaders, the CDMP had to undergo an extensive review period, especially since it was the first such plan. In late 2000 and early 2001, the Corps of Engineers, FORSCOM, and the OACSIM all reviewed and commented on the CDMP and Army personnel at Fort Hood, in conjunction with Fort Hood Family Housing, responded to these comments and made appropriate revisions.⁶⁷ As one example, FORSCOM expressed concern about the *Americans with Disabilities Act* (ADA) requirements not being mentioned in the CDMP. Army staff at Fort Hood agreed that this was an issue and indicated that the final documents would specify an appropriate percentage of homes that were compliant with the ADA.⁶⁸ Although the comments of all three entities helped Fort Hood Family Housing refine its CDMP, the refinement process took quite a long time, delaying the transfer of housing at Fort Hood to the spring of 2001.

Other delays arose in March 2001 as Congress and the Office of Management and Budget (OMB) questioned the project's financial structure. Congressman Hobson believed that, because Fort Hood consisted of nearly 6,000 houses, "If



FIGURE 5-5. Aerial view of sprawling Fort Lewis, Wash., showing installation's existing and planned neighborhoods.

Courtesy of Lincoln Military Housing.

it doesn't work right, then all [DOD] privatization, not just the Army," would suffer.⁶⁹ Therefore, careful and close analysis of the proposed project was essential. One of the issues that gave the OMB pause was that the Army would be contributing both equity (in the form of the buildings conveyed to the developer) and \$52 million to provide initial financing for the developer. Because the Army would also be a partner in the program, the OMB wondered, according to Randall Yim, Deputy Undersecretary of Defense for Installations, whether the cash investment created a "government entanglement" that could make this a federal, rather than a private-sector development.⁷⁰ Yim and Raymond Dubois, Yim's predecessor, both worked extensively with the OMB to resolve issues concerning the cash investments in RCI projects.

Ted Lipham also composed memoranda answering questions about Hood's CDMP and informing the OMB that, as Executive Director of RCI, he "fully supports the Fort Hood CDMP as a tremendous agreement."⁷¹ Such backing was crucial to obtaining OMB approval in March 2001.

FORT LEWIS (WASHINGTON STATE)

As the CDMP review process unfolded at Fort Hood, the Army began making progress on the Fort Lewis pilot project. Located in western Washington about 35 miles south of Seattle, Fort Lewis was officially established in 1919 and covered approximately 86,000 acres. It housed several troop units, including I Corps headquarters; 2nd Battalion, 75th Ranger Regiment; the 1st Brigade, 25th Infantry Division; the 3rd Brigade,

2nd Infantry Division; and 1st Special Forces. As of 2001, its population included nearly 20,000 active-duty soldiers, as well as 9,192 family members and 4,920 civilian employees. Most of the family housing on the base had been built in the 1950s and 1960s under the Capehart and Wherry programs.⁷²

Like Fort Hood, Fort Lewis had originally been slated for privatization under the CVI program. Although it was not one of the installations named as a CVI pilot project in 1996, Fort Lewis had begun CVI preparations by early 1998. Louis Bain, who was in charge of housing at the base, was especially interested in privatization and worked with the installation's commanding general to position Fort Lewis to become another of the CVI pilot projects.⁷³ But Fort Lewis never got far enough along in the CVI process to generate an RFP before Apgar changed the direction of Army privatization.⁷⁴ The Army had originally planned an industry forum at Fort Lewis for March 1999, but with Fort Hood on hold because of the ancillary facilities question, the forum was postponed until December 16, 1999. At that time, the 185 people in attendance heard representatives of JLL and Lieutenant General James T. Hill, Commanding General of both Fort Lewis and I Corps, discuss the RCI program.⁷⁵

The Army released the RFQ for Fort Lewis on December 10, 1999, and bids were received in the two-month period that followed. As with the Fort Hood RFQ, the Fort Lewis document described the needs of the installation in relatively general terms. Interestingly, the RFQ did not clearly state what the fort's housing deficit was because of an existing disagreement between Army headquarters (HQDA) and Fort Lewis about the number. The Army considered it to be 366, based on its own analysis completed in 1997, but Fort Lewis, which had had a private contractor perform an analysis, claimed it was 863. Because HQDA did not want

to delay issuing the RFQ unnecessarily, it decided not to notify Congress about the inconsistencies in the deficit until it had validated the figure and until the Army had selected the private partner. In addition, the RFQ noted that 300 of the existing 3,589 homes at Fort Lewis were deemed potentially historic and eligible for listing on the National Register of Historic Places. Fort Lewis would thus be "the first Army installation to privatize a historic housing area."⁷⁶

The Fort Lewis SSEB reviewed applications for minimum experience requirements, eliminating firms that did not meet those prerequisites. A firm not selected as competitive under that process then filed a protest with the GAO on May 22, 2000. On June 29, 2000, for reasons that are not clear, the firm withdrew its protest and a selection of the partner was made soon after. On July 11, the Army notified Congress of its intent to award the project.⁷⁷

On August 30, 2000, Secretary of the Army Louis Caldera announced that EQR/Lincoln Fort Lewis Communities, LLC, would be the developer. According to a press release, EQR/Lincoln would renovate or replace more than 3,500 homes, as well as construct 360 new homes. Congressman Norman Dicks commented that the project "means our Army families will get the kind of housing and communities they deserve."⁷⁸ Bain stated that the partnership's goal was to erase the housing deficit on the installation by 2010.⁷⁹ With those goals in mind, EQR/Lincoln and Army personnel began work on the CDMP.

FORT MEADE (MARYLAND)

Progress also took place on the Fort Meade pilot project, instituted by the Army in 2000. Originally established in 1917 as a cantonment site for troops drafted to serve in the First World War, Fort Meade covered 5,415 acres and had a

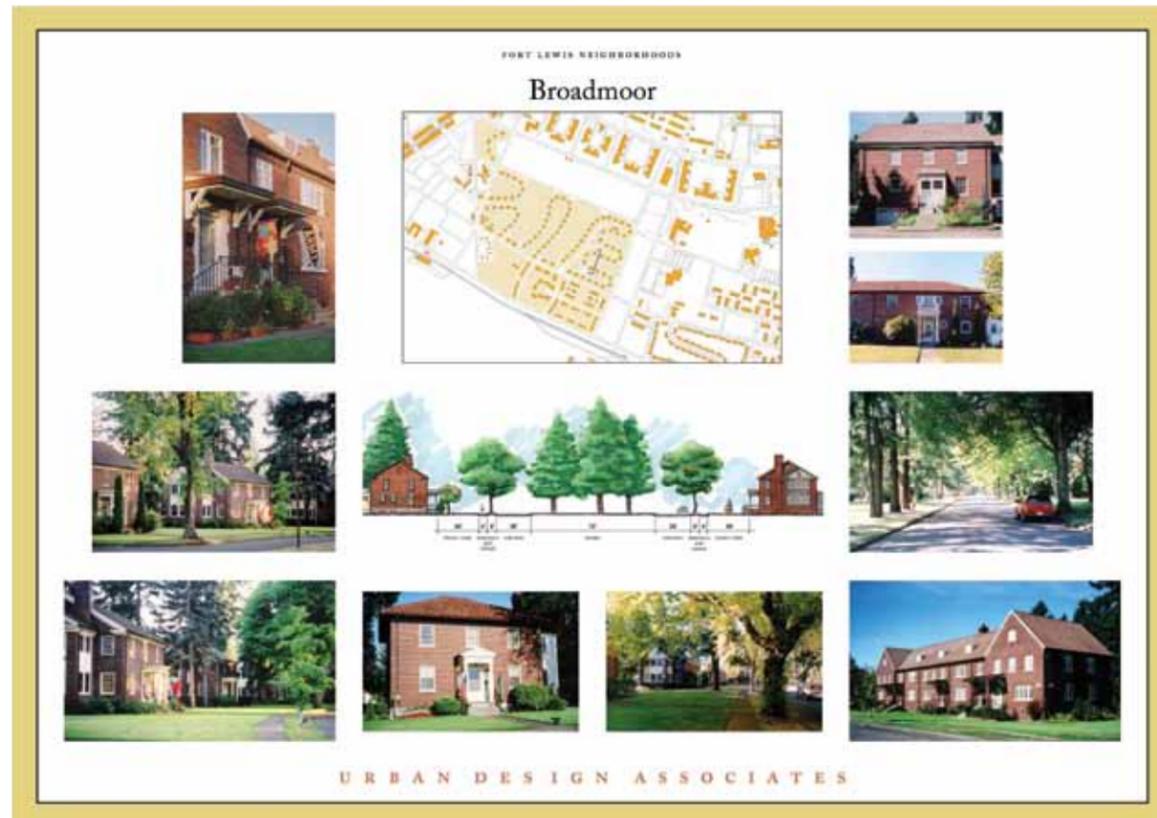


FIGURE 5-6. Design graphic detailing EQR/Lincoln’s design team’s renovation plans for the historic Broadmoor neighborhood at Fort Lewis, Wash.

Courtesy of Urban Design Associates.

population of 109,000. Situated between Washington, D.C., and Baltimore, it was known as a “purple” installation because it housed members from all services—Army, Navy, Air Force, U.S. Marines, and U.S. Coast Guard—as well as national guard and reserve troops. In 1993, Fort Meade became part of the Military District of Washington (MDW), which oversaw military operations in the National Capital Region.⁸⁰

As with both Fort Hood and Fort Lewis, the Army had worked on the housing issue at Fort Meade for several years. In 1995, for example, George Barbee, who managed housing at Meade as part of the MDW, began consulting with Ted Lipham and Don Spigelmyer about ways to privatize housing. He

discussed the matter with Meade’s garrison commander and with representatives of Anne Arundel County, and he developed a plan whereby Fort Meade would maintain ownership of the land on which the housing sat, transfer the existing homes to the county, and have the county cooperate with private developers to either replace or renovate the homes.⁸¹ A version of this plan came forward in 1996 when Barbee proposed that private developers construct housing in one area of the installation in exchange for the Army giving the developers access to 200 acres of Army land elsewhere. The area where the developers would construct the housing was the Meade Heights neighborhood, where the existing 250 houses and apartments were in an extremely run-down



FIGURE 5-7. Housing at Fort Meade, Md., before the implementation of RCI.

Courtesy of Picerne Military Housing.

condition. The Army worked with the county to launch this program, but when CVI began in earnest, it subsumed the county plan.⁸² Unfortunately, according to one source, the county had invested so much time and money into the project that its cancellation created resentment and “bad blood.”⁸³

In March 1998, a CVI report noted that Fort Meade had a housing deficit of 263 four-bedroom homes for junior non-commissioned officers and enlisted personnel, and that the Army had \$20.8 million available for privatization efforts. Under the CVI program, the selected developer would receive title to the installation’s inventory of 2,862 homes and would construct an additional 263 four-bedroom houses. Of the 2,862 houses and

apartments, it would replace 1,888 and renovate 712, including 112 historic homes.⁸⁴

An article in the July 23, 2000, issue of the *Washington Times* emphasized the need for renovations and additional housing at Fort Meade. This article described the poor condition of Fort Meade’s housing, reporting the experiences of individuals such as Navy Petty Officer Lee Thompson, who lived in the Argonne Hills neighborhood. Thompson’s home, the article stated, had walls “covered with lead-based paint, which is spread so thick the Thompsons say they can peel it off in chunks.” Major Philip VanWiltburg, who lived in the MacArthur Manor neighborhood, had to endure clogged air conditioning and heating vents:



FIGURE 5-8. Housing at Fort Meade, Md., prior to the implementation of RCI.

Courtesy of the RCI Office.

“The only air or heat he [Major VanWiltburg] and his wife, Trish, get is from a narrow opening in a window frame between the kitchen and dining room.” Major VanWiltburg’s house also suffered from mold in the bathroom and cupboards that would not close because the doors had “been painted over so many times they no longer stay shut.”⁸⁵ With such conditions, the need to do something at Fort Meade was pressing.

In 1999, the Army decided to use Meade as one of the pilot projects and preparation of an RFQ began. Barbee, who was designated as head of Meade’s RCI project, recruited enlisted personnel, officers, and their spouses to serve on installation committees that would advise him and others about how housing could be improved.⁸⁶ Fort Meade Garrison Commander Colonel Michael J.

Stewart also formed an RCI Staff Advisory Team and an RCI Support Team to work on the RCI plans.⁸⁷ These entities helped prepare the installation’s RFQ, which was released on May 1, 2000, and which outlined plans very similar to those conceived under the CVI program. According to the RFQ, the successful developer would be expected to “transform existing military housing areas into planned and integrated residential communities which foster family lifestyles.” The RFQ also specified that the developer selected needed either to replace or renovate approximately 2,600 of its 2,862 existing homes, including 112 historic houses. Such construction needed to occur within the project’s first 10 years. The developer would be expected to build approximately 308 additional homes (although this

number was not finalized) within the project’s first four years.⁸⁸

Four days after issuing the Fort Meade RFQ on May 1, 2000, the Army sponsored an industry forum in Baltimore, promoting the project to developers as “the first Army post in a metropolitan area to undergo housing revitalizations through the RCI program.”⁸⁹ Several individuals, including Apgar, Rostker, and Major General Robert Van Antwerp, the ACSIM, made presentations about RCI and housing privatization at the forum, which was attended by approximately 280 individuals. Apgar especially emphasized that RCI was an extraordinary opportunity for developers and that the Army had “streamlined the process” so that it was not so onerous. He hoped that developers would see that the Army viewed establishing partnerships with them as a priority.⁹⁰ Van Antwerp echoed those thoughts, telling developers that the Army wanted RCI to be profitable for them. It did not intend the program to “strain the last bit of blood.”⁹¹ One newspaper called these talks “a sophisticated sales pitch” to forum participants,⁹² while another noted that Apgar appealed to developers’ sense of patriotism.⁹³

With the information obtained from this forum, developers crafted their responses to the RFQ. The solicitation period closed on July 31, 2000, and the SSEB began reviewing the submissions soon after.⁹⁴ Seventeen firms responded to Fort Meade’s RFQ—the most of any of the pilot projects. On October 25, 2000, the SSEB selected three finalists. The Community Partnership LLC, a firm that had not been selected, submitted a protest to the GAO on November 20, 2000, stating that it was unduly removed from consideration. The protest, according to an RCI information paper, “questioned the RFQ evaluation process, the integrity of the evaluation team,

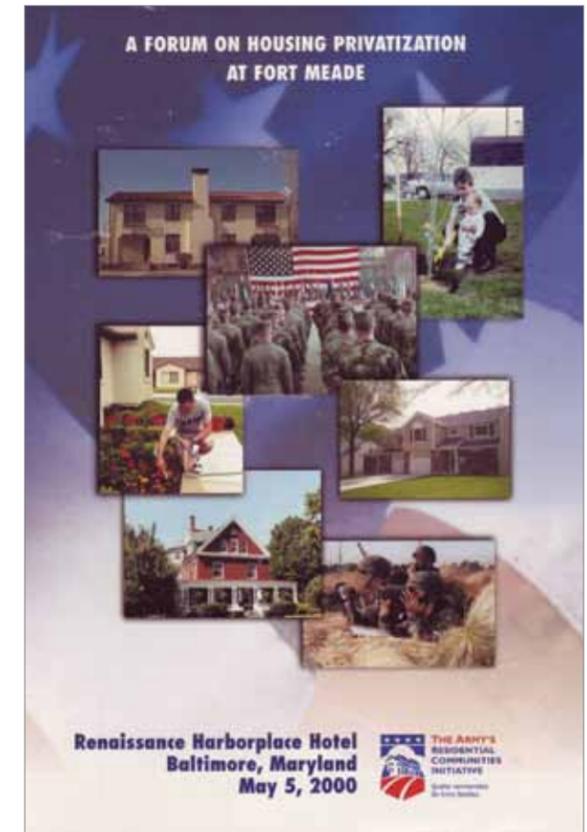


FIGURE 5-9. A brochure announcing the Fort Meade RCI Forum.

Courtesy of Mahlon “Sandy” Apgar, IV.

as well as the judgement [sic] of the evaluation team members.”⁹⁵

Community Partnership was a nonprofit organization consisting of Archstone Communities, Keating Development Company, and the Housing Commission of Anne Arundel County, Maryland. Representatives of Keating and Anne Arundel had met with Assistant Secretary Apgar in April 1999 to discuss the possibilities of using a nonprofit in the RCI program. Apgar had told the representatives to examine the MHPI legislation and make sure that their proposal fit within its guidelines and tools. Whether the partnership did this is unclear, but the Meade SSEB found 37 weaknesses in Community



FIGURE 5-10. John Picerne, head of Picerne Military Housing.
Courtesy of Picerne Military Housing.

Partnership’s proposal.⁹⁶ According to a newspaper account, these weaknesses included the firm’s lack of experience in both historic preservation and residential property management. The SSEB also had concerns about the financial viability of the partnership.⁹⁷ After a 100-day investigation, the GAO concluded that two of the weaknesses were “unreasonably based,” but the rest were legitimate. It therefore denied the protest.⁹⁸

Congressman Hobson, however, was not as easily satisfied. Hobson wanted reassurance that a high level of competition in the Fort Meade solicitation existed and that the winning developer’s investment approach was sound.⁹⁹ In February 2001, the congressman informed the Vice Chief of Staff of the Army that the Army should not make an award at Fort Meade.¹⁰⁰ The Army worried that any delay in selecting the partner “would be a

breach of faith with the bidders” and could potentially “expose the Army to multiple lawsuits and make [the Army] potentially liable for additional damages to those firms in the competitive range.”¹⁰¹ Part of his reservation, Hobson later revealed, was that he wanted to see the Army use a public housing authority, such as the Housing Commission of Anne Arundel County, and he was disappointed when Fort Meade opted to use a for-profit firm. “I just didn’t want every [privatization project] to look exactly alike,” Hobson remembered. “I wanted to try different ways to set them up.” After various Army officials, including Ted Lipham, visited with Hobson and his staff, he decided to “stop fighting it” and allow the program to go forward.¹⁰²

Interviews with the three finalists were held.¹⁰³ On March 6, 2001, the Army announced that MC Partners, LLC, which was a partnership of Picerne Real Estate Group and the IT Group, had been awarded the Fort Meade project. According to John Picerne, President of the Picerne Real Estate Group, one reason that MC Partners was chosen was because it had consciously focused its proposal on how it could provide the most benefit and service to soldiers and their families.¹⁰⁴ George Barbee agreed, stating that it was Picerne’s “frankness” and “sense of honesty” during the interview that convinced him that Fort Meade could work and collaborate with Picerne. The Army expected that MC Partners would complete the CDMP by the end of 2001 and that construction could begin in the spring of 2002.¹⁰⁵

SHARING LESSONS

Public-Private Partnership Conference

As work progressed on the three pilot projects, Apgar and the RCI Task Force looked for ways to share the important lessons learned from



FIGURE 5-11. One of Picerne Military Housing’s new family housing developments at Fort Meade, Md.
Courtesy of Picerne Military Housing.

each installation’s experience. One effort focused on gaining an international perspective on the RCI program. From April 14 to 16, 2000, the Defense Department and the United Kingdom Ministry of Defense (MoD) held a joint conference on public-private partnerships, co-chaired by former Secretary of Defense (and soon-to-be Vice President) Richard Cheney and former United Kingdom Chief of Defense Staff Field Marshal Lord Vincent. As part of the conference, a Housing Working Group discussed RCI and the United Kingdom’s Private Finance Initiative, implemented in the 1990s to “move the MoD out of the housing business altogether” by relying solely on the private sector to house military members. The DOD was not interested in this, however, as it saw providing some on-post housing as “a fundamental military requirement.”¹⁰⁶

The two sides found common ground on other issues. First, they were in accord that three

things were necessary in order to form a successful partnership with private industry. These were “sharing risks and profits, encouraging innovation, and overcoming personnel changes.” Second, they agreed that two major barriers worked against privatization efforts: political opposition and “the cultural divide and knowledge gap between the public and private sectors.” The groups discussed how to deal with these obstacles, concluding that both industry and Army officials needed to lobby Congress on behalf of RCI, and that both military and industry leaders needed to receive training in each other’s cultures.¹⁰⁷

Fort Carson Conference on Lessons Learned

In addition to discussing privatization concerns with representatives of the United Kingdom, Assistant Secretary Apgar emphasized the need for domestic seminars on lessons learned so that installations contemplating RCI could see what

other posts that had been through the process had experienced. In February 2000, at the Pentagon, Apgar conducted the first conference on privatization lessons learned. Then, in August 2000, Apgar and the RCI Task Force decided to hold these conferences on bases.

Apgar collaborated with Major General Edward Soriano, then the senior mission commander at Fort Carson, to develop the first seminar on lessons learned to be held on an actual installation. The purpose of this seminar was to discuss some of the issues that had arisen in the course of the development and implementation of privatization at the installation. Since transferring housing to the developer in September 1999, Fort Carson had already seen new construction and, by Christmas 2000, more than 200 homes that had been vacant because of maintenance issues would become available to the installation's residents. Assistant Secretary Apgar and the RCI Task Force worked closely with Major General Soriano to arrange the conference and prepare the agenda. In addition to Assistant Secretary Apgar and RCI Task Force Director Ted Lipham, several senior officials attended the seminar, including General John Hendrix, FORSCOM commander; Lieutenant General LaPorte from Fort Hood; and the ACSIM, Major General Robert Van Antwerp.¹⁰⁸

During the seminar, Colonel Michael Kazmierski, garrison commander at Fort Carson, made a detailed presentation on lessons learned. Kazmierski outlined lessons in three major categories: pre-award activities, closing and transition activities, and post-award activities. Under the first category, Kazmierski emphasized the need for close and constant communication with school districts over the way that an increased number of on-post resident families would affect school facilities, as well as the way that it would affect the



FIGURE 5-12. Participants at the Fort Carson Conference on Lessons Learned, 2000.

Courtesy of Jerry Stafford, Fort Carson, Colo.

amount of impact aid that schools received from the DOD. Another important issue to address early was taxation. As Joseph Faccone, a financial manager with Ernst & Young, asserted, “The issue of taxation on these improvements is a state-by-state battle the Army is going to face.” In the case of Fort Carson, El Paso County determined that because the installation was under federal jurisdiction, the county did not have the power to tax it, but other counties or states might not necessarily make the same decision. In Kazmierski’s mind, it was imperative that commanding generals at installations discuss taxation policies with local and state authorities early in the process.¹⁰⁹

In terms of the closing process, Kazmierski explained that because of the numerous things that had to be accomplished, setting the closing to occur 90 days after the acceptance of the \$350,000-contract deliverable, the CDMP, would be preferable to 30 days, which was the timeframe for Fort Carson’s closing. The shorter time period placed too much pressure on the partner and was not reasonable. In addition, both the partner and the Army needed to make sure that the soldiers and the outlying communities were well-informed about what was going on with privatization. Kazmierski recommended “a

robust public affairs plan,” in addition to constant monitoring of soldiers’ and community residents’ opinions of the program.¹¹⁰

Finally, the group discussed several post-award lessons learned. One of the major concerns at Fort Carson was what the partner could do to make family housing feel more like a community. The developer at Carson wanted to hold an Easter egg hunt, as well as provide welcome baskets to new move-ins. However, Fort Carson’s legal office disapproved of such activities because they believed that they violated the Joint Ethics Regulations, which stated that a contractor could not provide to a government employee (which included a soldier) anything that cost more than \$20. The lessons-learned participants believed this to be too narrow an interpretation of the regulations and charged Mark Connor, attorney in the Office of the General Counsel for the Army, with resolving the issue. Connor, through consultations with Fort Carson’s legal staff, decided that the Joint Ethics Regulations allowed exceptions for the types of activities that the Carson partner proposed. Prior to this decision, however, Fort Carson Family Housing had decided to look at other ways to develop a sense of community.¹¹¹

The conference also addressed problems encountered when “historic housing” was included in privatized housing development. Many of Fort Carson’s homes would be more than 50 years old by the time the renovation program went into effect. According to guidelines promulgated by the Advisory Council on Historic Preservation (ACHP) and enforced by each state’s Historic Preservation Office, a building was eligible for placement on the National Register of Historic Places once its age exceeded 50 years, if it met certain criteria for historical significance. Apgar emphasized that this issue was not one that only Fort Carson faced,

as the Army had approximately 12,000 homes that were either listed on the National Register of Historic Buildings or eligible for that listing. Apgar explained that he was in discussions with the ACHP about how the Army could proceed with historic homes under the RCI program, noting that preservation leaders had shown “a great deal of flexibility” in working with the Army on this issue. However, because each state’s Historic Preservation Office had its own character, state-by-state negotiations would be necessary.¹¹²

When the Fort Carson conference on lessons learned ended, participants concluded that it was a worthwhile event—so much so that additional conferences were planned after CDMP awards had been made at Fort Lewis and Fort Meade. Louis Bain, head of the RCI efforts at Fort Lewis, explained that the meetings facilitated interaction between those installations that had already privatized housing and those that had not, thereby elevating the comfort level of leaders who were uncertain about the RCI process.¹¹³ Because Bain and individuals from Fort Hood were present at the Fort Carson conference, the Army was able, in Apgar’s words, “to capture real-time issues and results from that conference and inject the findings directly into the evolving RFQs, procurement requirements, and other policies.” He considered the Fort Carson seminar to be one of the most effective events of his tenure.¹¹⁴

Integrated Process Team

Another step that Apgar took to ensure the success of privatized housing was to create the RCI Integrated Process Team (IPT) in early 2000. Acting on a suggestion from Jacques Gansler, the Undersecretary of Defense for Acquisitions, Apgar formed the IPT as a mechanism to provide high-level policy guidance to RCI. According to

its charter (signed by the Secretary of the Army in March 2000), the IPT, with an initial life of 24 months, would supervise the RCI pilot programs and formulate policy on issues affecting more than one installation. Its membership consisted of the Assistant Secretary of the Army for Installations and Environment, who would chair the committee; the Assistant Secretary of the Army for Financial Management and Comptroller; the Assistant Secretary of the Army for Manpower and Reserve Affairs; the Assistant Secretary of the Army for Acquisition, Logistics and Technology; the General Counsel of the Army; the Chief of Engineers; the Assistant Chief of Staff for Installation Management; and the Commanding General, FORSCOM. Ted Lipham served as staff director of the IPT, while Colonel Ivan Bolden was the staff executive, and JLL provided consultant private-sector expertise and support. The Vice Chief of Staff for the Army co-chaired the team with Apgar, something that Lipham called a “smart” move because it ensured attendance: “None of those two- and three-stars were going to tell the vice they weren’t going to show up for the meeting.”¹¹⁵ In addition, the IPT provided Apgar with a way to build more support for RCI from senior leaders in the Department of the Army, thus lessening opposition from installation commanders.

According to Apgar, the IPT was “a board of directors combined with a think tank.” It met monthly, and its members could not delegate attendance responsibilities. “Because of the four-star co-chairs,” Apgar remembered, “the three-stars tended to change their schedule when they had to.” Lipham and Bolden would conduct analyses of issues needing decisions and then present their findings at the IPT meeting. Members would discuss the findings and then make policy recommendations. In Apgar’s words, the IPT “kept

the Army leadership engaged in the process on a policy-making level, while preventing key issues from being sidelined in the complex staff machinery.”¹¹⁶ According to Lipham, it essentially “wrote policy on the fly.”¹¹⁷

The IPT held its first meeting on May 15, 2000, when Apgar, Bolden, and General John W. Hendrix, FORSCOM commanding general, explained how the team would work. Hendrix emphasized that in making policy the IPT had to acknowledge an installation commander’s authority, while also preserving military culture and providing transparency to soldiers. Apgar echoed this sentiment, stating that “installation commanders are the RCI ‘clients.’” Bolden explained that the IPT would employ a “five-step systems-based approach to issue identification, resolution, and implementation” and that it would address both major and minor issues.¹¹⁸

POLICY ISSUES

Other issues that surfaced with the pilot projects in 2000 and early 2001 remained to be resolved. Many of these came before the IPT, which, once it had approved a course of action, had the power to issue a directive outlining a new policy. For example, at its June 15, 2000, meeting, the IPT discussed housing market analyses, their usefulness to RCI, and their ideal frequency. Based on this discussion, the IPT issued a directive in July stating analyses were “critical to the planning, programming, and associated fiduciary responsibilities” of RCI and that they would be performed every three to five years, or whenever an “installation or community experiences significant changes in demographics, supply of housing, economics of the region, and/or Basic Allowance for Housing (BAH).” The RCI Task Force would fund the analyses for installations privatized over the next

five years, and the ACSIM would assume responsibility for them thereafter.¹¹⁹ Other topics included conducting the lessons-learned seminars, deciding whether residents could pay rent in arrears (the IPT said “yes”), determining what standards RCI housing should meet (those developed by the installation and developer during the CDMP process, subject to congressional approval), ascertaining the best method for implementing resident satisfaction surveys (having a third party conduct them semi-annually for the first five years), and using a third-party vendor to transfer soldiers’ BAH to the partner.¹²⁰

Some issues required lengthier discussions. For example, on June 15, 2000, the IPT debated how installation family housing staffing would be affected after an RCI award to a developer. This was a difficult issue because many within the installation housing offices feared that RCI would end their jobs.¹²¹ Yet setting a clear policy was important so that the installation knew at the start of CDMP development what housing responsibilities it would retain and what duties it would release to the partner.¹²²

In the course of the IPT discussion, Ted Lipham explained that the Army already had a policy governing post-award housing staffs, based on its experience at Fort Carson. This policy stated that the Army would still be responsible for managing the partnership and interacting with the outside community, including aiding soldiers with off-post housing referrals. The IPT discussed whether this policy was adequate or whether another would be more appropriate and examined four options. The first option was to keep the existing policy, whereby Army headquarters would fund one position for every 1,000 houses, as well as fund someone to deal with off-post housing and the Deposit Waiver Program (by which installations would

work with landlords to waive deposit requirements for soldiers), and someone to serve as community liaison. If more positions were needed, the installation’s Major Command (MACOM) would fund them. Under options two and three, each pilot site would select the number of necessary Army staff positions based on conditions at the installation. Under option two, Army headquarters would pay for the positions, while in option three, the post’s MACOM would fund them. Option four would require installation staff to oversee the partner. A staff of five Army personnel, for example, would monitor 3,000 to 6,000 homes, while others would deal with off-post referrals, the Deposit Waiver Program, and community liaison work.¹²³ Ted Lipham recommended the implementation of option one, but the IPT decided to examine both option one and option four in more detail.¹²⁴

In its July 17, 2000, meeting, the IPT recognized that, because of their experience, those who had been working as housing staff before the implementation of RCI would be in high demand by both the government and the developer to fill positions after the RCI conversion. Lipham recommended that CDMPs include specific provisions stating that government workers had the right of first refusal for any contracted housing jobs that would exist after RCI.¹²⁵ Based on these discussions, the IPT issued a directive with four main provisions. First, Army family housing staffing levels would consist of one individual for every 1,000 homes on an installation, as well as three people to supervise the RCI project from both an administrative and financial standpoint. Second, staffing levels would be maintained at current levels during the transition phase to RCI. Third, personnel ramp-down would begin at the end of the transition phase. The fourth provision was that the Army would continue to have responsibility for off-post

referrals and the Deposit Waiver Program. This four-pronged policy would ensure that Army housing personnel could respond quickly to soldiers and their needs.¹²⁶

The IPT examined another issue that had complicated matters at Fort Carson and that the three RCI pilot projects were all grappling with—the effects of privatization on school systems. In hearings held in March 1999 before the House Military Installations and Facilities Subcommittee, Congressman Hefley stated that he interpreted “ancillary facilities,” as delineated in the MHPI legislation, to include schools. He wondered what the DOD’s thoughts were on schools and privatization, especially since many privatization projects, by adding to available housing, would increase the number of students in an area. Deputy Undersecretary Yim explained that few of the services had actually looked at building schools and that the main issue was how privatization would affect the impact aid program with respect to schools.

Under the impact aid program, the DOD paid school districts certain amounts of money to offset the number of students that its members added to the schools. The level of impact aid depended on how many students lived off base (in housing subject to taxation) and how many lived on base (where school-funding taxation did not apply). Lower levels of aid were provided for students living off base, and higher levels for students residing on base. Since RCI’s primary goal was for housing to be constructed, operated, and maintained by the private sector (although located on installations), Congress and school districts questioned whether posts should continue to pay the same level of impact aid. Yim indicated that installations would still provide the higher level since privatized housing to that point had not been subject to taxation. In Yim’s view, this was the primary way that the

DOD could ensure that privatization did not have a detrimental effect on local schools.¹²⁷

The Fort Carson project had highlighted the need to engage outside interests sooner in discussing issues such as school impacts, but the pilot installations did not always learn that lesson. Not long after the issuance of Fort Meade’s RFQ, for example, members of the Anne Arundel County School Board expressed concern that privatization would strain the capacity of several schools. According to a newspaper article, the Anne Arundel School District did not have the facilities to accommodate the numbers of new students, estimated by RCI Project Manager George Barbee to be as many as 700. “If all the numbers come true that Mr. Barbee talked about,” Thomas Rhoades, county schools director for program planning, said, “we’d be a few elementary schools short.”¹²⁸ Michael J. McNelly, a member of the school board, explained that the main problem was that the Army had not communicated the impacts early enough to the district. “We’re being brought on board after the fact,” McNelly declared.¹²⁹

In addition to communication issues, another sticking point was that the Army did not intend to use the MHPI authorities to construct schools under the RCI program. This was in part because RCI leaders felt that a soldier’s BAH should be used only for the development, operation, and management of residential communities and in part because Congress had not offered approval for the RCI program to construct schools.¹³⁰ After discussing the matter at its January 2001 meeting, the IPT issued a directive that it would be RCI policy for school systems to foot the bill for any new construction necessitated by implementing RCI. However, installation leaders needed to ensure that close communication with stakeholders occurred early in the RCI process. The IPT directive communicated

that the Army was willing to offer land for school use and that the higher level of impact aid to school districts would continue. The directive also explained that the RCI program wanted to keep open the option to allow exceptions to the policy, in case “we construct large-scale developments in new areas or school districts refuse to build new schools regardless of requirements.”¹³¹

Late in 2000, the IPT became aware of funding issues with the FY 2001 budget. The Army wanted to budget both for the completion of the pilots and for work on the next wave of RCI projects. But the House Armed Services Committee told Army officials that the committee would not approve funds for implementing RCI at other installations until they provided Congress with “proof” of RCI success.” The congressional committee also wanted a report on how additional funds would affect the Army’s family housing program in general. The IPT discussed ways of alleviating congressional concerns, which they considered legitimate. At the same time, it expressed a desire to fund the execution of up to six additional RCI projects each year.¹³²

On October 30, 2000, the Army made another reprogramming request to Congress, this time asking that \$6.6 million originally budgeted to complete the pilot sites instead be redirected to start the follow-on FY 2002 projects. Congress considered the issue for a few months, and Army officials met with representatives and staffers to address concerns. Finally, in early 2001, Congress acted favorably on the reprogramming request, ensuring that the Army would be able to continue with additional projects and signifying approval of the way that RCI pilots had been conducted.¹³³

THE UTILITIES CONTROVERSY

One of the more complicated issues that the IPT addressed involved determining how soldiers

would pay for utilities under privatization. This had been a contentious issue at least since the early planning stages of the Fort Carson project. In the past, the Army had paid for the water, electric, and heating bills of military families on the base, whereas soldiers living off base paid for their own utilities from their BAH. During the planning stages of the CVI program at Fort Carson, the Army left open the question of who would pay for utilities once the private partner took over management of family housing. According to Fort Carson Chief of Staff Tony Koren, several installation leaders vehemently objected to any proposal that soldiers be required to pay for their utilities. He recalled that some generals “would stand up and literally scream, ‘You people are trying to screw my soldiers. I will never permit a project that makes my soldiers pay for their utilities,’” even though only about 30 percent of the garrison population lived on base, meaning that the other 70 percent were already paying for their utilities.¹³⁴

Facing such opposition, the Army postponed making a firm policy decision about utility payments. It placed a clause in the Fort Carson RFP that when a project produced sufficient revenue to assume utility costs without raising the soldier’s rental amount, the Army might require the partner to pay for utilities. Still, no set policy was made.

Previously, the OSD had based guidelines for the payment of utilities under privatization programs on its 1998 policy on resident utility payments. This policy stated that utility payments would come from a service member’s BAH, based on the assumption that if the developer were responsible for this cost, it would “introduce uncertainty into [the developer’s] rental stream,” thereby affecting the project’s scope.¹³⁵ The amount would be set as an average baseline cost for the house and would come directly from a portion of

the service member's BAH designated as a "utility allowance." The service member would pay out-of-pocket for any utility usage that exceeded the amount in his or her utility allowance. When the issue came before the IPT, however, its members did not like the policy because it might lead to soldiers paying out-of-pocket for utilities. Instead, the IPT proposed that the partner would pay utility costs up to a certain cap and the Army would pay for anything above that cap. The IPT also favored adding incentives in CDMPs so that developers would construct energy-efficient homes, thereby driving down utility costs.¹³⁶

When Army officials took this proposal to the OSD, the OSD rejected it, maintaining that its policy would lead to more energy conservation than the Army's proposal. The House MILCON Appropriations Subcommittee supported the OSD's stance, as did the OMB. The Army then decided to have the Undersecretary of the Army and the Vice Chief of Staff take the idea to the Principal Deputy Undersecretary of Defense for Acquisition, Technology and Logistics. Apgar told the IPT that if no "relief" was obtained from that source, he intended to approach higher officials about the matter.¹³⁷

Discussions were held with the deputy undersecretary. Army officials reminded him that the OSD rationale behind the utilities policy included ensuring that developers had a steady revenue stream from BAH and that soldiers had an incentive to conserve energy. The OSD also did not want to subsidize utility costs above a cap because it could have potential scoring implications with the OMB. The Army believed that the policy outlined by the IPT answered all of these concerns and fulfilled the service's "long-standing policy that privatization will be transparent to soldiers and families, i.e., there will be no [out-of-pocket] expenses."¹³⁸ After a few months of deliberations

and consultations, the OSD finally decided to let the Army test its proposed method of utility payment at Fort Hood.¹³⁹

The Fort Hood CDMP, which was approved by Fort Hood's commanding general and the FORSCOM commander on December 13, 2000, thus contained a stipulation that developers would pay for utility usage up to a cap and the Army would pay for any usage over that cap. However, after the CDMP was sent to the OMB, the OSD, and Department of Army headquarters for approval, this policy became a sticking point. The OMB stated that if the Army did not require soldiers to pay for their utility use, the project would be considered a government project. This would, in essence, prevent it from receiving favorable scoring.¹⁴⁰ Between December 15, 2000, and February 6, 2001, the OSD, the OMB, and the Army discussed the utilities issue. Ultimately, they decided that the Army could not implement its program because the *National Defense Authorization Act of 2001* stated that, although the Secretary of the Army could provide utilities and services to service members, the Secretary had to be reimbursed for whatever utility services were provided.¹⁴¹ Therefore, part of service members' BAH would be used to pay for utilities, and the original OSD concept of how utilities would be covered under privatization would stand. In March 2001, the Army informed installation leaders that RCI projects would use the OSD's utility policy "effective immediately."¹⁴²

In June 2001, the RCI Task Force assembled a "Utility Tiger Team" to develop a strategy for implementing the utilities policy across the Army. This effort included consulting with soldiers, installation commanders, utilities experts, and other stakeholders to develop a program that would be easy to implement.¹⁴³ The strategy formulated was then vetted and discussed at a Utility Policy

Implementation Workshop in April 2003, as well as at a Professional Housing Management Association seminar in January 2004, which included representatives from installations and RCI partners. Based on all of this work, in 2005 the Army implemented on six installations a "mock utility billing" program that allowed residents to see how much energy they actually used while also helping them learn how to conserve.¹⁴⁴

Fort Hood provided a good example of how the mock program proceeded. The installation utilized a program developed by the U.S. Department of Energy for determining the normal household utility usage based on data specific to each house, including the façade orientation, window size, ceiling height, number and types of appliances, and frequency of laundry machine use. Establishing a standard utility baseline proved challenging, especially since more than 200 different floor plans existed in Fort Hood housing before privatization. The installation of meters to measure utility usage also proved difficult.¹⁴⁵ After passing through the mock program, Fort Hood, together with Forts Carson, Hood, Meade, Lewis, and Campbell, implemented the utility policy in September 2006.¹⁴⁶

THE END OF APGAR'S TENURE

With the election of President George W. Bush as President of the United States, Apgar's tenure as Assistant Secretary of the Army for Installations and Environment came to an end. As he prepared to leave office in January 2001, Apgar, together with Vice Chief of Staff General Jack Keane, planned one last event that he hoped would solidify RCI's position as a viable and continuing program—a Senior Installation Leaders' Conference on how to partner with the private sector. Fifty two- and three-star generals in Army leadership attended the conference, held January 10–11, 2001.

"Partnering with private enterprise on Army installations" constituted the main theme of the conference, which covered more than just RCI. General LaPorte, who had experienced the RCI process at Fort Hood, told his colleagues at the conference that RCI was a positive thing that would benefit their soldiers. According to Apgar, the attendees were all "engaged" and committed to RCI. In his mind, this conference meant that senior Army officers had truly bought into the RCI program, thereby ensuring its success.¹⁴⁷

A few days after the conclusion of the conference, Apgar attended his final IPT meeting as Assistant Secretary. At the gathering, he declared that RCI was now "an established program" that had "become institutionalized, to a point." Vice-President-elect Cheney supported it, Apgar explained, as did the incoming Secretary of the Army and most members of Congress. Some dissenters still criticized the program, but, on the whole, RCI had gained general acceptance. Apgar shared with IPT members what he thought were his biggest accomplishments as Assistant Secretary, among them executing the pilot projects, implementing the RFQ and CDMP processes, and establishing the IPT. Apgar also maintained that his tenure had brought a shift in the Army's thinking about installations, in that Army leaders now regarded them as "strategic assets." Instead of "looking at thousands of individual buildings," he explained, "we are viewing the portfolio."¹⁴⁸

Looking to the future, Apgar expressed concern that his RCI team was still considered a task force rather than a permanent office. "OSD and other services have permanent people assigned to their privatization offices.... We must do the same." He also advocated using the RCI privatization strategy to solve other issues on installations. Finally, he counseled the Army to ensure that RCI

continued to have the “flexibility and responsiveness” that had made it successful. Only by avoiding bureaucracy, he concluded, could the Army continue the progress that RCI had made.¹⁴⁹

CONCLUSION

Apgar’s assessment of his accomplishments and the problems facing RCI were largely accurate. Under his leadership, the Army had restructured its thinking about how to proceed with privatizing family housing and had implemented several procedures. However, the changes did not come easily. Apgar faced numerous battles with Congress, especially with Representative Hobson, over his proposed changes to the Army’s program. To Hobson (and other congressional leaders), it appeared that Apgar was proceeding too quickly with something that was a radical departure for the government. To Apgar, Congress acted in almost an obstructionist way with regard to a program that he believed would drastically improve housing on Army installations. Both sides had valid points. Perhaps Apgar did not fully appreciate the need for congressional buy-in to the program. And it may be that Congressman Hobson especially was reluctant to embrace change, no matter how valuable it might be. Hobson later defended his actions by saying, “Everybody thought I was out to kill housing privatization, and that was not true.” Instead, he said, he merely wanted the program to go forward “in a way that achieves the goals that everybody wants, and achieves them in a cost-effective manner.” Hobson contended that he did not want people in the future looking back at RCI and asking themselves, “Why did they do these dumb deals?”¹⁵⁰ Of course, to Apgar, these were not “dumb deals.” But he had a difficult time persuading Hobson and others of RCI’s efficiencies and effectiveness.

Congress was not the only group with reservations. As we have seen, Army leaders themselves—both in the Pentagon and on installations—had qualms about relinquishing control of housing to private developers. Apgar obtained their buy-in through the establishment of the IPT, through the support of key Army leaders such as Generals Schwartz and LaPorte, and through meetings such as the Senior Installation Leaders’ Conference. The work of Apgar’s subordinates, such as Ted Lipham and Don Spigelmyer, also mitigated discontent. Most importantly, the progress of the three pilot projects in 2000 and 2001 convinced many that RCI was legitimate, while also providing opportunities for Army leadership to tweak the program as issues arose. At the IPT meeting on May 10, 2001, after Apgar had left office, Raymond J. Fatz of the Office of the Assistant Secretary of the Army for Installations and Environment explained that “RCI has ‘turned a corner,’” in that “interest and acceptance from Congress and OSD/Army leaderships have changed dramatically over the past two months.”¹⁵¹ It appeared that going forward into the Bush administration, RCI was on safe ground and had become an accepted and established program. Yet each of the three pilot sites—as well as Fort Carson—would experience growing pains as they progressed toward completion.

ENDNOTES TO CHAPTER 5

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114. Apgar interview, 33.
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FIGURE 6-1. RCI family housing,
Fort Belvoir, Va.
Courtesy of Clark Realty Capital.



CHAPTER SIX

Implementing the RCI Pilot Projects, 2001–2005

By the summer of 2001, the Residential Communities Initiative (RCI) program was on firm ground. Although Congress would continue to ask tough questions about how RCI was progressing, congressional opposition to the program had largely ceased. Army leadership had generally accepted the program, and several installations were lined up to follow the pilot programs in implementing RCI. Yet that actual implementation process sometimes proved difficult. The experiences of the three RCI pilot projects—Forts Hood, Lewis, and Meade—shed light on the issues that arose once the housing had been transferred to the partner. Although in almost no case was the switch to RCI a seamless process, in general both Army and partner RCI staffs developed innovative ways of coping with the problems, providing lessons on which other installations could draw.

CHANGING RCI LEADERSHIP

As the time for implementing the three RCI pilot projects approached, leadership at the national level changed. Assistant Secretary of the Army for Installations and Environment Mahlon “Sandy” Apgar, IV, departed in January 2001 and for several months his position lay vacant. Finally, in August 2001, Dr. Mario Fiori was confirmed as the new Assistant Secretary. Fiori had served for many years as an engineer in the U.S. Navy and had also worked in the U.S. Department of Energy. Because he lacked Apgar’s real estate background and RCI was already off and running, Fiori did not focus on RCI as much as his predecessor had. Instead, he delegated much of the RCI oversight to two others: Geoffrey Prosch, Principal Deputy Assistant Secretary of the Army (Installations and Environment), and William Armbruster, Deputy Assistant Secretary (Privatization and Partnerships).

Prosch, who became Principal Deputy Assistant Secretary in June 2001, was a veteran of both



FIGURE 6-2. Geoffrey Prosch, Principal Deputy Assistant Secretary of the Army for Installations and Environment. Courtesy of RCI Office.

the Vietnam and Desert Storm conflicts and had been garrison commander at Fort Polk. He retired as a colonel in the Army after serving for 31 years. Armbruster, who was appointed to his newly created position by Fiori, was a graduate of the College of William & Mary, had served for 26 years in the Navy, and had real estate experience through previous service with the City of Emporia, Virginia, for which he developed a revitalization plan. He also served as director of the Fort Pickett Local Reuse and Redevelopment Authority after the Army designated Pickett for closure under its 1995 Base Realignment and Closure (BRAC) plan. Although Fiori still maintained oversight of the RCI program, Prosch and Armbruster assumed the main responsibility for it. According to Armbruster, the fact that the U.S. Army had created the position of Deputy Assistant Secretary for Privatization and Partnerships showed “the importance and emphasis the Army is placing on privatization initiatives,” especially housing.¹

Under Prosch and Armbruster’s leadership, the programs at Forts Hood, Lewis, and Meade progressed to the actual transfer of housing into private hands. The Army, at the behest of Congress and in response to the Secretary of Defense’s goal to eliminate inadequate housing by the year 2010, issued a family housing master plan in the summer of 2000 and revised it in 2001. Required under the *Military Construction Appropriations Act of 2001* (P.L.



FIGURE 6-3. William Armbruster, Deputy Assistant Secretary of the Army for Privatization and Partnerships. Courtesy of RCI Office.

106-246), the master plan explained how the Army would meet the Secretary of Defense’s goal. According to the October 2001 version, the Army planned on using the three-legged stool of traditional military construction, privatization, and elimination of out-of-pocket housing expenses to meet the goal, which by then had been moved forward by the Bush administration from 2010 to 2007. The Army’s master plan predicted that by the end of 2005, approximately 52 percent of its worldwide inventory of 111,228 homes would be privatized, including 20 installations in Fiscal Years (FY) 2002 and 2003.² Ultimately, the Army was the only service to meet the Office of the Secretary of Defense’s (OSD) goal of getting all of the required homes built, primarily using privatization, by 2010. As of 2010, the Army had privatized 98 percent of the housing inventory in the United States, totaling 85,424 homes.³

In 2002, the Army also created a new organization under the Office of the Assistant Chief of Staff for Installation Management (OACSIM) with authority over installations—the Installation Management Agency (IMA). Conceived as a way to streamline the management of Army installations, the IMA consolidated responsibility for most U.S. posts in one organization. Before its creation, in the words of Deputy Assistant Secretary of the Army (Installations and Housing) Joseph W. Whitaker, the Army “had fifteen major commands

doing installation management fifteen different ways.” With the establishment of the IMA, “now we have one agency doing it one way.”⁴ The IMA was headquartered in Arlington, Virginia, and had oversight of “all facets of installation management, such as construction, family care, food management, environmental programs, well-being, logistics, public works and installation funding.”⁵

With this reorganization, the Army assigned two commanders to an installation: a senior mission commander (usually a general), responsible for military tactics, and a garrison commander (usually a colonel), who had oversight of installation operations under the direction of the IMA. Because the RCI Program Office was already directly under the Secretariat, it did not experience much change with the establishment of the IMA, but the agency’s creation highlighted the increased emphasis that the Army was placing on ensuring that installations were well managed.⁶

In the meantime, all three of the RCI pilots were in the process of transferring family housing to the private partner, a task completed by the end of 2002. The following sections discuss the implementation of RCI at Fort Carson and at the pilot projects. Fort Hood had a relatively smooth transition, while Fort Meade experienced greater difficulty. Fort Lewis also had some bumps along the road. The Fort Carson project, meanwhile, had its own set of issues as it continued down the RFP/contract path. The launch of privatization at the pilot installations revealed some of the potential problems that the Army might face at other installations and helped the Army leadership make necessary adjustments to the RCI program.

FORT CARSON (COLORADO)

Although not an RCI pilot program, Fort Carson’s contract-based Capital Venture Initiatives

(CVI) program still offered many lessons for the Army, especially since it was the first installation to undergo privatization. Fort Carson faced jurisdictional issues with which other installations would have to grapple, and its experience showed that a good working relationship with the developer was essential for privatization to succeed. Although the original developer had to sell its share of the partnership because of the parent company’s bankruptcy, Fort Carson’s program experienced a smooth transition to another partner, indicating that privatization could overcome significant hurdles in the housing development process.⁷

In November 1999, the Army transferred operations at Fort Carson to developer J.A. Jones. At the time, contract administration of the program had been transferred from the U.S. Army Corps of Engineers (USACE) to Fort Carson. Privatization at Fort Carson was dictated by a contract rather than a partnership and, for at least the first year after the transfer, the RCI Program Office did not pay much attention to Fort Carson’s activities. This suited the inclinations of Harrison Cole, who became the project’s contracting officer. “I tried to avoid being involved with the RCI people or the Washington people as much as possible,” Cole recalled, happy to administer the contract the way that the Army administered other contracts. But by the summer of 2000, central Army leadership had begun to focus more on Fort Carson, in part because the installation was the only privatization project that had actually transferred to private ownership and commenced building houses.⁸ It was then that Army leadership began to consider Fort Carson as part of the RCI program and abandoned reference to it as a CVI project.

One of the major issues that Fort Carson faced as the first to privatize was determining who had jurisdiction over private housing. For example,



FIGURE 6-4. New RCI home at Fort Carson.

Courtesy of Balfour Beatty Communities.

installation commanders traditionally had the power and responsibility to search houses and evict problem residents. Since the housing was now privatized, questions arose as to whether commanders still had that authority. Fort Carson's attorneys reached the conclusion early in the program that "there might be legal authority" for commanders to do searches and evictions, "but just practically speaking it would be better not to."⁹ For searches, it was necessary to have authorization from a military judge before a commander could go into a resident's home. In terms of evictions, the contractor, under the terms of the contract, had the right to evict residents. But that raised the question of which court had jurisdiction over such evictions since Fort Carson was under federal authority and "there [was] no federal law in landlord/tenant relations."¹⁰ Fort Carson's legal department eventually decided that the McGlenn Doctrine applied, which stated, according to Fort Carson attorney Russ Hamilton, that "the state law at the time the federal government takes over jurisdiction continues to apply unless it's inconsistent with federal law."¹¹ In the case of Fort Carson, this meant that those laws that were in effect in the 1940s would apply. Facing that situation, Fort Carson's legal department rewrote the landlord-tenant

lease to state that landlord-tenant relations were subject to current Colorado law, as long as that law did not conflict with federal law or Army regulations. Evictions were thus subject to state law and were litigated in the local courts. If a resident refused to move out even with a court order, then the installation commander could eject the individual from the base because the commander had the authority to prohibit the presence of specific individuals on the installation.

As privatization progressed at Fort Carson, new and renovated homes quickly came on line. According to the Fort Carson contract, J.A. Jones would construct 840 new homes and renovate 1,823 in the five-year initial development period of the project. Construction of the new homes began in March 2000 and the first soldiers moved into new residences in October 2000. By April 2001, 108 new houses had been built, 257 were in the process of construction, and 76 had undergone renovation. J.A. Jones's plan was to complete 20 new homes and renovate 40 houses every month "until the renovation and construction phases of the project are complete."¹² As new housing development got underway, J.A. Jones monitored residents' satisfaction with privatization, even though the company's contract did not tie incentive fees to this performance measure. J.A. Jones operations and maintenance staff consistently scored excellent ratings on resident surveys, and the occupancy rate was generally above 90 percent (although at times when several homes were off-line for renovation purposes, it dipped below 90 percent).¹³

The Fort Carson RCI office personnel and J.A. Jones staff managed to forge a good working relationship. One area in which the relationship worked well was office space. After the transfer of housing, Fort Carson Family Housing office staff (the partner) assumed they would need to work out



FIGURE 6-5. Groundbreaking for Iroquois Village during Phase II of family housing privatization at Fort Carson. Ivan Bolden is on the left.

Courtesy of Jerry Stafford, Fort Carson, Colorado.

of a trailer or an empty building on the base. Ron Hansen, project manager for J.A. Jones, recalled that there was even some discussion about whether the Army could legally provide any space for the partner because it was a private entity. However, as soon as he arrived on the base, Carson's RCI program manager said, "No, we're working together on this," and gave Hansen half of his office. According to Hansen, this collaborative attitude helped make the Fort Carson project a success.¹⁴

However, an educational process still had to occur with residents as to how privatization operated. According to Jerry Stafford, a community manager at Fort Carson and a former soldier himself, residents "weren't used to paying rent," so they had difficulty understanding why their Basic Allowance for Housing (BAH) went to the developer. As at other installations, "haves" and "have-nots" were present at Fort Carson. Specifically, higher-ranking soldiers wondered why they were paying more (since the rent was based on the BAH) for the same kind of housing as soldiers from the

lower ranks lived in. The key, Stafford explained, was educating soldiers that they had "to look at the big picture down the road." In the future, "We're going to develop and build better housing that's going to be more suited for your rank based on your pay rate," Stafford informed officers, but "getting that across was kind of a challenge."¹⁵ In fact, getting this point across turned out to be a major challenge that the RCI program faced at every Army installation during the shift to privatization.¹⁶

Because of higher-than-expected BAH rates, the project produced a very favorable net operating income in its initial years—one that exceeded projections.¹⁷ Despite the initial successes of Fort Carson Family Housing, the Army had to find a new developer-partner for the project because the parent company of J.A. Jones, Philipp Holzmann AG, filed for bankruptcy in March 2002, and J.A. Jones itself filed for bankruptcy in September 2003. In November 2003, GMH Military Housing purchased J.A. Jones's share of the project and became the Army's new privatization partner. (GMH was already the partner at Fort Stewart/Hunter Army Airfield in Georgia, Fort Hamilton in New York, Walter Reed Army Medical Center in Washington, D.C., and Fort Detrick in Maryland.) This was a scenario that Congress had frequently asked about in privatization hearings. What would happen if the developer went bankrupt? Would project assets be seized? Would the project itself end? In the case of Fort Carson, neither of these scenarios occurred.

According to Harrison Cole, the contract with J.A. Jones had a "firewall in place that didn't allow them to touch this project [as] part of the bankruptcy"; therefore, no project assets were in danger of going to creditors. In fact, in a privately arranged sale fewer than 60 days after the filing, GMH bought out J.A. Jones' interest in Fort Carson Family Housing LLC, and the project continued unhindered. The

Army ensured that the financial and legal aspects of the transition were transparent to all involved.

Philip Grone, Principal Assistant Deputy Undersecretary of Defense for Installations and Environment, explained, “The project never skipped a beat and continues to provide affordable, quality housing to the military families at Fort Carson.”¹⁸ As GMH assumed property management and construction at Fort Carson, it changed relatively little of what J.A. Jones had put into place. One of the few differences was that GMH decided to assume lawn maintenance for residents, even though it increased operational costs. Many Fort Carson residents did not even know that the ownership transition had occurred. Ivan Bolden, who supervised the Fort Carson project from the Washington, D.C., RCI Program Office, came to Fort Carson and went “door-to-door to talk to people, [but] people had no idea there was a bankruptcy going on.”¹⁹ The smoothness of the transition convinced Grone that “We have the right financial and legal structures in place to walk the fine line of maintaining private-sector risk while still protecting government interests.”²⁰

A major change for the Fort Carson housing program came in December 2005, when the Army decided that Fort Carson needed to convert from a contractual relationship to a partnership with GMH. The “conversion” brought the installation into line with the rest of the Army’s RCI program and portfolio. “They [the RCI Program Office] wanted everybody to be the same,” Dean Quaranta, Program Analyst for Fort Carson’s Housing Division, remembered. Individuals in both the Office of the ASA, I&E and the RCI Program Office worked with Fort Carson personnel on the transition from contract to partnership, which cost approximately \$1,000,000 to implement but which proceeded without major problems.²¹

In November 2005, Fort Carson had a new Housing Market Analysis (HMA) completed in response to the restationing of additional soldiers as part of BRAC 2005. The study revealed that, because of projected additions to Fort Carson, the project needed to build another 1,023 new homes. GMH ran the numbers and discovered that it would not be able to get financing for anything above 650. So in coordination with the RCI Program Office in Washington, D.C., GMH decided that Phase II of privatization at Fort Carson would consist of building 404 new homes by February 2010 to fill the need at least partially. At that time, Fort Carson became the first RCI site to enter its second phase of installation construction and renovation.

Fort Carson Family Housing, LLC, also became the first privatization project to place all residents under the Resident Responsibility for Utilities Program. The program set a baseline average monthly utility usage for residents based on their housing type. Residents who conserved energy received rent credit or a check from Fort Carson Family Housing, while residents who failed to take conservation measures were required to pay for excess usage. Actual billing for gas and electricity under the program began in September 2006. Since then, residents have voiced few complaints about the program, which is currently being rolled out at all RCI locations.²²

By June 2007, privatization at Fort Carson had produced 841 newly constructed homes, 1,823 renovated homes, and plans for an additional 404 new homes. Privatization had apparently succeeded at Fort Carson and, as the Army’s first privatization program, it influenced many of those that followed. As one report indicated, Fort Carson had numerous military and congressional visitors throughout its development. One lesson learned from the project was to not “underestimate the



FIGURE 6-6. New neighborhood center constructed by Fort Carson Family Housing, LLC.

Courtesy of RCI Office.

interest Privatization would bring and the time it would take to address government agencies’ desires and requirements.”²³

FORT HOOD (TEXAS)

Fort Hood was the first pilot to go through privatization entirely as an RCI project. Like Fort Carson, it faced new and unknown privatization situations, but once Fort Hood actually got to the point of transferring houses, its program proceeded without much incident. The Army issued the Request for Qualifications (RFQ) to privatize family housing at Fort Hood on August 6, 1999, and closed the 90-day solicitation period

on November 5, 1999. On June 28, 2000, the Army awarded the Fort Hood RCI project to Fort Hood Military Housing LP, a joint venture between Lend Lease Actus of Napa, California, and Trammell Crow Residential, of Atlanta, Georgia. The scope of the final Initial Development Period (IDP) totaled \$333.8 million, which included loans obtained by Fort Hood Family Housing amounting to \$211.9 million, a Lend Lease Actus contribution of \$6 million, and the Army’s investment of \$52 million. The balance of the IDP scope was financed through net operating and interest incomes.²⁴

Subsequently, Fort Hood Military Housing LP and the Army jointly created a Community

Development and Management Plan (CDMP), which laid out in detail all aspects of the project, including construction, revitalization, maintenance, and operations. The Fort Hood CDMP was completed and approved by the FORSCOM Commanding General on December 13, 2000. However, shortly after completion of the CDMP, two events occurred that significantly improved the available revenue for the project. The 2001 BAH rates increased by 9.5 percent, as opposed to the 2 percent which the Army had previously assumed, and interest rates moved downward. An addendum to the CDMP incorporated the financing changes wrought by these two events, and the new document was approved by the Fort Hood and FORSCOM Commanding Generals on January 17, 2001.²⁵

A critical element of the Fort Hood Military Housing agreement was the Army's equity contribution of \$52 million to cover an anticipated development gap. The project could not have proceeded without these funds. The MHPI Act authorized the services to make contributions to defray the cost of projects, as long as the contributions did not exceed a designated percentage of the total cost of a project. Army staff began to call these thresholds the "33 percent rule" and the "45 percent rule," both of which were mandated under Title X, Section 2875 of the U.S. Code.²⁶ As the name suggests, the 33 percent rule required that government cash contributions to RCI projects not amount to more than 33 percent of the overall development cost of a project. Likewise, the 45 percent rule required that cash contributions to RCI projects, plus the value of the conveyed assets, stay below "a ceiling of 45 percent ... when compared to the overall scope of the project."²⁷

Although allowed for in the MHPI authorities, both the White House Office of Management and

Budget (OMB) and the U.S. Department of Treasury raised questions about the financial structure and tax implications of the Fort Hood financial agreement and thus were reluctant to give their approval. The OMB argued that the financial and partnership structures made Fort Hood Military Housing look too much like a government entity, rather than a private-public project in which the Army was the limited partner.²⁸ In January 2001, Treasury officials expressed the concern—in regard to potential loss of federal tax revenue—that "the structure of the deal with the Special Purpose Entity [Fort Hood Family Housing] may not conform to the spirit of the law, even if it conforms to the letter of the law. When the government invests in private sector business, the government's action should be above reproach."²⁹ At the heart of the matter was the danger that if the Internal Revenue Service determined that "the Army's share of the appreciation cannot be used by the Special Purpose Entity to reduce its tax bill, the Army could be viewed as involving itself in a scheme to permit a private concern to avoid paying taxes."³⁰ Ted Lipham, RCI program director, responded that the tax structure of the Fort Hood agreement was legal, tax neutral, and "revenue positive" for the U.S. Treasury. He explained, "The plan is structured to allow legal tax deferral, as opposed to tax avoidance, and the Army's participation in the project is tax neutral ... [and] none of the private sector partners [is] using low income tax credits to finance the project, taking depreciation tax benefits on the government direct loan, nor taking benefits above the amount of private debt and equity capital invested in the project."³¹

Fortunately for the future of Army housing privatization, the OSD supported the Army's position regarding these financial and legal issues, clearing the way for Congress to approve



FIGURE 6-7. Construction of RCI housing at Fort Hood, Tex.
Courtesy of RCI Office.

the Fort Hood Family Housing CDMP in May 2001. The Army's ability to overcome these financial hurdles permitted the Fort Hood housing privatization to proceed and, perhaps of greater long-term importance, resolved several issues that had the potential to halt the entire privatization endeavor before the RCI program had made significant headway.

With the financing in place for the Fort Hood project, the partner, Fort Hood Military Housing LP, began implementing plans laid out in the CDMP. The Fort Hood Family Housing CDMP proposed a five-year initial development period that would include construction of 973 new four-bedroom homes, conversion of 630 two-bedroom "stacked" apartments to 315 four-bedroom townhouses, conversion of 760 three-bedroom and four-bedroom homes to two-bedroom and three-bedroom homes, respectively, and demolition of 368 homes.³² Fort Hood Family Housing also proposed

to build new community centers in Fort Hood's neighborhoods, and called for the project to obtain Installation Status Report (ISR) "Green status" for all homes by 2010.³³ At that time, only 1,214 out of 5,622 homes on the installation were classified as "adequate," that is, "ISR green." The Fort Hood RCI project included the operation, maintenance, renovation, and replacement of the existing inventory and new construction resulting in an eventual, end-state inventory of 5,912 homes.³⁴

Fort Hood Family Housing proposed constructing an additional 593 homes and renovating or improving 5,319 homes in the years following the initial development period. The CDMP outlined that all cash proceeds from the project, including all "debt, equity, BAH, interest income, etc.," would go into the project's lockbox accounts and that each year Fort Hood Family Housing would develop an annual operating budget, approved by its Major Decisions Committee (consisting of Army



FIGURE 6-8. Signing ceremony at Fort Hood that initiated the transfer of family housing to RCI partner Actus Lend Lease in August 2000. Front row (left to right): Lieutenant General Leon LaPorte, III Corps and Fort Hood Commanding General; Mahlon “Sandy” Appgar, IV, Assistant Secretary of the Army for Installations & Environment; Peter Koziol, CEO, Actus Lend Lease. Back row (left to right): General John W. Hendrix, Commanding General, FORSCOM; U.S. Representative Chet Edwards (D-Tex.); General Eric Shinseki, Chief of Staff, Army.

Photograph by John Byerly. Courtesy of Department of Defense.

and Actus Lend Lease representatives). Each year Fort Hood Family Housing would review its “asset condition report and capital works program,” and if it found that it had more available funds than estimated in its original pro-forma analysis, it would consider “accelerating improvements and replacements, adding amenities and recreational facilities, addressing issues not originally anticipated, and paying down existing debt.”³⁵

Although the CDMP received congressional approval in May 2001, the actual transfer of housing did not occur until October 1, 2001.³⁶ RCI officials had initially estimated that 90 days

would be sufficient for the transfer to occur, but at Fort Hood some extenuating circumstances delayed the process. First, the developer discovered that excessive levels of the insecticide chlordane contaminated the ground where family housing was located. Because of the environmental concerns, transfer could not occur until the Army had produced testing and remediation plans. Second, the terrorist attacks that destroyed New York City’s World Trade Center on September 11 sent financial markets into a tailspin, which delayed the financial closing of the project. Both of these situations delayed the transfer until October 1.³⁷

As part of the transfer, the Army formalized the Fort Hood Family Housing Limited Partnership (LP). After the transfer, Fort Hood Family Housing was able to begin the construction and renovation outlined in the CDMP, while also assuming property management duties, such as customer service, maintenance, and supervision of soldiers moving in and out.³⁸ On November 12, 2001, Fort Hood held an RCI groundbreaking ceremony and the project was officially under way.³⁹

As the first RCI pilot project to transfer housing to the partner, Fort Hood was operating in uncharted waters. The effect of privatization on Hood’s Family Housing Office of 47 employees posed one of the first challenges. Based on the Integrated Process Team’s (IPT) directive on the size of family housing offices, discussed earlier, as well as guidance provided in the Army Family Housing Master Plan,⁴⁰ the Department of the Army determined early in 2001 that Fort Hood would need only 20 people after the transfer. But as a 2002 audit report revealed, the installation commander questioned whether that number of people could provide sufficient service to Fort Hood families.⁴¹ As Carol Anderson, who worked in the housing office, remembered, Army headquarters wanted to eliminate “a whole lot of tasks that [were] taking care of soldiers.” Claiming that Hood soldiers needed a variety of services because more than 80 percent of the installation’s service members were E-6s or below who had experienced multiple deployments, Hood officials requested that FORSCOM allow it to employ 26 individuals to perform various tasks. These would include off-post housing services, implementing the Deposit Waiver Program (whereby the Army worked with off-post landlords to ensure that soldiers were not charged security deposits), acting as liaisons with community housing activities, and providing

counseling services to soldiers delinquent in their rent payments. FORSCOM, however, refused to grant a waiver, although it did allow Fort Hood to staff its office with 26 individuals, as long as Fort Hood paid for it. Still, when the transfer occurred, the housing office was drastically reduced.⁴²

In addition to personnel cuts, Fort Hood prepared for the transfer by examining what housing functions RCI would privatize. These included housing maintenance and waste management. The contract for maintenance expired in December 2000, but because the transfer of housing did not occur until October 2001, Fort Hood negotiated monthly extensions to the contract. This arrangement enabled it to provide uninterrupted family housing services without paying contract termination fees.⁴³

Once the transfer occurred, Robert Erwin, Fort Hood’s housing manager, and Barbara Sincere, the RCI Portfolio Manager, used a Performance Management Plan to track incentive fees for construction, property management, and quality of life, as mandated by the CDMP. These incentive fees were similar to traditional plans utilized in other federal and Army contracts, in which contractors received additional pay based on their performance on predefined goals and metrics.⁴⁴ The partner’s performance was assessed through resident and Army evaluations, the results of which were tabulated in a database and assigned points. The points earned were then reviewed on a quarterly basis and the developer received an incentive fee based on its points.⁴⁵

Erwin monitored the incentive fee performance through weekly reports. After reviewing these reports, Erwin would meet with the Fort Hood Family Housing project director to discuss any particular area falling below the rating of “outstanding” and would also conduct a quarterly



FIGURE 6-9. Lieutenant General Leon Laporte and the Honorable Mahlon Apgar, IV (right), speak with reporters following the official signing ceremony for the RCI Partnership Declaration at Fort Hood, August 2000. Photograph by John Byerly. Courtesy of U.S. Department of Defense.

assessment to follow up on any identified issues. Constant communication and reports from the field enabled the partnership to address any new or imminent issues that might cause a drop in performance. “I’m happiest when my partner is achieving 100 percent of his performance incentive fee,” Erwin noted. “I’ve had input to what’s important and my desire is to make it achievable, but to set the bar up high enough that ... when we say it’s outstanding, we know that it’s outstanding.”⁴⁶

Partner performance was also evaluated through resident surveys, focus groups, and town hall meetings. Fort Hood Family Housing generally received high marks from residents, but a few criticisms did emerge. For example, some soldiers felt that the partnership did not move quickly enough to improve housing on the base. According to Marvin Williams, director of property management for Fort Hood Family Housing, a “have” and “have not” syndrome fueled this perception: when one resident saw a neighbor living in a new or renovated home, he or she wanted one as well and was disappointed when one was not forthcoming. Patience was the key, Williams explained, as Fort

Hood Family Housing could not “get to [all the housing] all at once.”⁴⁷

While some other privatization pilots (and eventually other RCI projects) struggled with communication problems between the developer and the installation’s RCI office, the partnership at Fort Hood was solid. In part, this was because both the RCI Program Office and Fort Hood Family Housing’s office were located in the same building, which facilitated communication.⁴⁸ According to Sincere, the “most successful partnerships” were those in which the Army and its partners shared a building: “When they’re not in the same building, it almost always [creates] that adversary kind of mentality.”⁴⁹

In addition, at least in the mind of Fort Hood Family Housing Asset Manager Jim Switzer, the close working relationship developed because both sides—Actus Lend Lease and the Army—truly embraced the idea that this was a partnership and not a contractual relationship. “Where that relationship is strong,” he explained, “you can have disagreements but still work through it and get to the right answer.” Fort Hood Family Housing Project Director Mack Quinney agreed. The partnership attitude led both sides to ask, “How do we make this work to the best advantage for the quality of life for the soldiers,” and cooperation ensued without any kind of territoriality.⁵⁰

The success of the partnership was also due to the fact that Actus Lend Lease staff acclimated fairly quickly to the military culture at Fort Hood. Yet because the garrison commander had to look out for the interests of his or her soldiers, the Army’s involvement in housing privatization occasionally meant that value decisions took precedence over the more business-oriented, profit-driven point of view of the developer. As one example, when a service member was killed



FIGURE 6-10. New RCI housing at Kouma Village, Fort Hood, Tex. Courtesy of RCI Office.

in action, the Army allotted the surviving spouse a casualty stipend, which included a housing allowance for several months. Even with this stipend, the garrison commander asked Actus Lend Lease to provide the family with three months of free rent, essentially allowing the spouse to keep the BAH for three months. Although such a concession had an adverse economic effect on Actus Lend Lease, the company agreed to the request, believing that it was “the right thing to do.”⁵¹

On the flip side, the Army had to become accustomed to the fact that its partner was a for-profit company. Quinney believed that this perspective was one that military leadership and soldiers had a hard time understanding, but Erwin embraced the concept and did “an admirable job [of] instilling in his folks that perspective.” The for-profit aspect also benefited the soldiers, at least according to Quinney

and Switzer, as Actus Lend Lease had to provide the best services possible to soldiers so that they did not choose to live off post.⁵²

Realizing that soldiers had a choice of where to live, Actus Lend Lease, in conjunction with the Fort Hood Family Housing team, made it a priority to engage Fort Hood residents and to plan activities promoting a sense of community. In 2003, Actus Lend Lease began publishing a two-page newsletter, entitled *Hood Highlights*, that provided progress reports on the construction of new housing, along with explanations of community activities. In June 2004, for example, the newsletter reported that Actus Lend Lease and Fort Hood Family Housing had “hosted an enchanting evening Wine Tasting Reception for residents of Patton Park.”⁵³ Likewise, in August 2005, Fort Hood Family Housing sponsored “National Night Out



FIGURE 6-11. A community event sponsored by Fort Hood Family Housing at Kouma Village, Fort Hood, Tex.

Courtesy of RCI Office.

events” that included “free food and drinks, DJ’s, and a multitude of games and other activities.”⁵⁴

Hood Highlights also included information about Fort Hood Family Housing personnel, such as Leslie Catlin, Ana Roman, Shundilina Black, and Kirk Williams, who constituted the management team of the Comanche III Village. Both Catlin and Williams, the newsletter stated, were former active-duty soldiers, while Roman and Black were spouses of soldiers serving in Iraq. The fact that neighborhood management teams had a military background enabled them to understand resident concerns and the military culture in general more quickly. “The entire staff was great and went above and beyond any of my expectations,” one Comanche III resident said. “Thank you for employing such nice people.”⁵⁵

One of RCI’s major selling points at Fort Hood was the benefit to the local economy. In 2001, the year privatized housing construction began at Fort Hood, the Fort Hood Family Housing team anticipated subcontracting at least \$100 million of work to locally owned businesses during the five-year initial development period. Local subcontractors were needed for traditional construction



FIGURE 6-12. Congressman Chet Edwards (third from the left), participating in the handover of the key to Kouma Village at Fort Hood, Tex.

Courtesy of RCI Office.

work, such as framing, plumbing, roofing, and air conditioning, as well as for services such as pest control, carpet cleaning, and vehicle maintenance for primary contractors.⁵⁶ By January 2002, the percentage of contracts awarded to local businesses was even greater than initially predicted—Fort Hood Family Housing had awarded 84 percent of the initial contracts to local businesses, with 64 percent going to small local businesses.⁵⁷

Despite the success of RCI at Fort Hood, some problems did emerge. One of these was the economic effect that privatization had on the Killeen Independent School District, an issue to which U.S. Representative Chet Edwards (D-Texas) gave specific attention. Edwards wanted to have new schools constructed in order to accommodate the increase in the number of children living on base at Fort Hood. He preferred this alternative to busing students to other areas of town. However, using RCI funds for schools had not been approved in the CDMP and required approval by the Office of the Assistant Secretary of the Army for Installations and Environment.⁵⁸ The Army’s policy, according to one observer, was that “school construction costs associated with military housing privatization may

not be financed as part of the privatization transaction.” But the school district did not have the necessary funds either, even though privatization actually brought more federal impact aid to the Killeen school district. (An increase in the number of students residing on federal land allowed the district to receive higher levels of funding.) In the 2001-2002 school year, for example, the district received \$33 million in federal impact aid, or a total of \$3,026 per on-post pupil, which was more than other school districts received. The district associated with Fort Meade, for example, received \$888 per on-post student, while the Fort Lewis district received \$2,171 and the Fort Carson district received \$2,877 per on-post student.⁵⁹

Since the Killeen school district was interested in seeing privatization succeed at Fort Hood, it had not challenged the Army policy on school construction during the time when the Army and Fort Hood Family Housing prepared the CDMP. Instead, Superintendent Dr. Charles Patterson worked with Congressman Edwards’ office on Impact Aid Education Construction funding. Although the overall numbers of children attending Killeen district schools did not increase dramatically simply as a result of privatization, the geographic distribution of children did shift when more families moved on base. Working together, Fort Hood and the Killeen Independent School District agreed that new housing construction and renovations would result in the presence of approximately 1,000 more elementary school-aged children (grades 1-6) and 632 additional middle school students (grades 7-8) on base. The school district worked extensively in 2002—the first full year of the RCI program at Fort Hood—to ensure that the installation’s schools met the state-mandated 22:1 ratio of students to teachers. However, the growing population of the base meant that

the district could achieve this goal only by adding unattached modular classrooms at each of the on-post schools. Given the anticipated growth in the student population, the school district had to try to accommodate the equivalent of two additional elementary schools and one additional middle school to educate on-post children.⁶⁰

In 2002, Killeen Independent School District also passed a \$100 million bond issue for school construction and dedicated \$35 million of that money to building the schools needed because of privatization.⁶¹ Constant collaboration between the Army, the private developer, and the school district ensured that the new schools were located in close proximity to new RCI housing and neighborhoods, facilitating the sharing of utilities. For example, when installing a water line to one of the new schools, Actus Lend Lease used a line large enough to accommodate both the school facility and housing in the area. As a result of Actus Lend Lease’s collaborative attitude, the school district was saved from overspending funds on infrastructure development. In turn, the district saved the developer money because it financed a portion of that particular water line.⁶²

Not only did Actus Lend Lease work with the local school district on construction, but it also collaborated with the school district on improving community relations. This partnership led to activities such as an annual Earth Day celebration with the neighborhood schools and a golf tournament to benefit the district. In addition, representatives from Actus Lend Lease served as members of the Killeen Independent School District education foundation board, actively participating in programs that the board initiated.⁶³ The handling of the school issue at Fort Hood’s RCI privatization pilot highlighted what the Fort Carson pilot program had already told the Army—that early community



FIGURE 6-13. Residents outside of RCI housing at Comanche III Village, Fort Hood, Tex.

Courtesy of RCI Office.

contact and information-sharing with school districts were essential to resolving school issues.

As RCI matured at Fort Hood, some managerial changes occurred. For example, in 2003, Trammell Crow withdrew from the partnership after the company decided to extricate itself from military housing. To replace the property management services that Trammell Crow had offered, the partnership turned to Winn Residential Military Housing Services. Winn Residential was a joint venture of WinnCompanies and Actus Lend Lease. As of 2008, Winn Residential oversaw property management and maintenance but maintained a contractual relationship with Fort Hood Family Housing rather than a complete partnership. Winn possessed no equity in the project, leaving Actus Lend Lease and the Army as the actual business partners.⁶⁴

As it had with Fort Carson, the Army made it a priority to document lessons learned at Fort Hood, with the hope that when another installation underwent privatization, it could avoid some of the difficulties that Fort Hood experienced and build on Hood's successes. But sharing lessons learned turned out to be problematic. When Robert Erwin made a presentation in February 2002 at a conference on lessons learned, the other two pilot programs found it difficult to obtain any concrete information about Fort Hood. As Louis Bain, who was the first director of RCI at Fort Lewis, explained, Actus Lend Lease had sued the federal government early in Fort Hood's RCI program, accusing it of sharing information from the Fort Hood CDMP with Fort Lewis. The case was eventually dismissed, but the episode dampened

Fort Hood's willingness to share its experiences with others.

Nor was this an isolated situation. Both Dean Quaranta of Fort Carson's housing office and Harrison Cole, contracting officer at Fort Carson, were reluctant to share financial information with even the central RCI Program Office in Washington, D.C., because, they said, they wanted to avoid distributing proprietary information. Such reluctance did not contribute to an atmosphere of openness. As Bain disclosed, "I never had an opportunity to talk to my counterpart at Fort Hood about what they were doing and all because we were concerned that there would be this perception of impropriety."⁶⁵

Despite difficulties with information sharing, Fort Hood did offer the other RCI pilots a set of legal documents that they could use as templates for their own programs. Moreover, the eventual approval from the Treasury Department and OMB of the Fort Hood CDMP and the Army's \$52 million equity contribution set the stage for the Army to work out the complex financial agreements essential to the success of other RCI projects.⁶⁶ Fort Hood also showed other installations the successes that could occur by establishing a working partnership between the Army and the developer early on and locating the developer and the Army housing office in the same building.⁶⁷

In addition, there were general lessons learned that Fort Hood provided to other installations. One such lesson was that having a team of people in the installation's RCI housing office who had complementary strengths was essential to a thriving operation. "This is big business," Erwin related. "When you're negotiating ... [a deal in the billions] for 50 years, you've got to have the right talents at the table, because the partners are bringing in the best and the brightest that is available across the

world." Therefore, it was essential for the government to provide the RCI program with leaders who possessed the skills and education to facilitate negotiation with the private sector.⁶⁸

By June 2006, Fort Hood could report that Fort Hood Family Housing had successfully completed the initial development period of the project by eliminating all inadequate housing. In addition, Fort Hood Family Housing had a better-than-estimated financial performance, in large part because the Army had increased the BAH at the installation to rates higher than foreseen in the CDMP, raising the net operating income of the project. With additional money coming into the project, Fort Hood Family Housing projected that during the first phase of the "Secondary Development Period" the developer could replace 232 homes and demolish 586 homes, thus creating an "end-state inventory" of 5,912 homes.⁶⁹

FORT LEWIS (WASHINGTON STATE)

While RCI implementation went relatively smoothly at Fort Hood, Fort Lewis experienced difficulties during the transition to privatization.⁷⁰ Unlike Fort Hood, the partnership between the RCI staff at Fort Lewis and the developer and property manager was not strong, due in large measure to frequent turnover in the Residential Communities Office. Fort Lewis also faced fluctuations in the number of homes needed at the base, which forced the developer to look for innovative ways to build more homes for less money. In addition, a group representing residents with disabilities sued EQR/Lincoln, the Fort Lewis partner, claiming that their houses were inaccessible and that bureaucratic red tape prevented timely improvements to the houses. Although the Army believed that many of the complaints were without foundation, the lawsuit pointed to the



FIGURE 6-14. An artist's rendering of RCI housing and neighborhoods at Fort Lewis, Wash.

Courtesy of RCI Office.

need to ensure that RCI worked for *all* soldiers and their families.

Preparation of Fort Lewis's CDMP fell to EQR/Lincoln and staff in the installation's Residential Communities Office. Work on the CDMP began at the end of August 2000 but proceeded slowly. Because Lewis was one of the pilot projects, neither EQR/Lincoln nor the Residential Communities Office staff had preexistent templates for their work. Nor could they obtain ideas from the other pilot projects because the lawsuit against Fort Hood made all the parties wary. In June 2002, Lieutenant General James T. Hill, Commanding General of Fort Lewis, addressed this issue in a letter to Assistant Secretary Fiori, explaining that "We may have done better if we were less restricted by the developer's proprietary concerns about all the Community Development and Management Plan documents."⁷¹ Later projects were able to take advantage of lessons learned by the pilot projects,

but Forts Hood, Lewis, and Meade essentially worked separately in preparing their CDMPs.

According to Kimberlee Schreiber, managing director for Fort Lewis Communities (the partnership between EQR/Lincoln and the Army), Fort Lewis's CDMP was "written with more checks and balances and government oversight" than the others.⁷² Nancy Barnes, housing specialist manager, said that Fort Lewis "put everything in [the CDMP] that you can think of."⁷³

In order to get resident input, Fort Lewis established several focus groups and held public meetings on the CDMP. It also hosted a week-long design charette, at which focus groups could provide input on neighborhood design options. From this, the team developed a concept plan that it hoped "honor[ed] the historic legacy of the post," including "the American military traditions of dignity, rank and character." Part of the design concept aimed to establish greater connections

among Fort Lewis's different neighborhoods by using parks, connector streets, bicycle and walking trails, and open spaces. The plan also called for the establishment of "a strong sense of neighborhood" through "patterns of tree-lined streets with sidewalks, residential-scale street lighting, small-scale neighborhood parks within convenient walking distance and a pleasant, civic character for houses facing the streets."⁷⁴

Members of the CDMP team also visited each property, conducting a review of all of the exteriors and "a statistically relevant portion" of the interiors in order to discover their condition. The team found that in several homes, the Army had recently renovated both interiors and exteriors, including replacing kitchen cabinets and installing new windows and vinyl siding. The team pledged to "maximize the benefits that this investment has brought to Fort Lewis through its renovation and development plans."⁷⁵

One of the stickiest issues in the development of the Fort Lewis CDMP was a reversionary ownership interest in the installation's land held by Pierce County, Washington. When Fort Lewis was established as Camp Lewis in 1917, the citizens of Pierce County "voted to bond themselves for \$2,000,000 to purchase 70,000 acres for donation to the United States for use as a military base." The deed for this land was executed in 1919 and included a reversionary clause that if the land was no longer used for military purposes, it would revert to Pierce County's ownership. In 1948, Pierce County passed a resolution requiring the county's consent to any leases, licenses, or easements on land subject to the reversionary interest. In the late 1950s, the Army and Pierce County entered into an agreement by which the reversionary interest on specific land was terminated and some land was traded, in order to allow

investors to secure funding to construct housing under the Capehart program.⁷⁶

In the course of the CDMP preparation, the reversionary interest came up again. In order for the partner to secure its funding, it needed to prove clear title to the land or else the government would have to provide a loan guarantee. In the event that Fort Lewis closed and the reversionary interest remained in force, Pierce County would own the land on which the housing was constructed, a possibility that made lenders wary of providing money to a private developer for RCI development. This issue was ultimately resolved through a land swap, whereby the county's reversionary interest was transferred to another piece of Fort Lewis land not needed by RCI. The county then released its claim on Fort Lewis land slated for privatized housing development. That way, if the base closed, the land on which the housing was constructed would have no legal encumbrance upon it.⁷⁷

Another part of the CDMP was to ensure that impacts on natural resources were either avoided or mitigated through the completion of an Environmental Assessment, as required by the *National Environmental Policy Act of 1969*. As one document explained, "When initially setting up the housing footprint ... the RCI program evaluates existing resources and sites within the footprint to avoid resource impacts that would necessitate preparation of an Environmental Impact Statement."⁷⁸ Although these assessments could usually be done expeditiously, delays occurred at Fort Lewis in late 2000 when then Assistant Secretary Apgar, in consultation with EQR/Lincoln and Fort Lewis, decided to change the construction footprint at the installation. As Apgar later remembered, he believed that the unique topography of Fort Lewis needed to be emphasized more in the plan. He recalled,

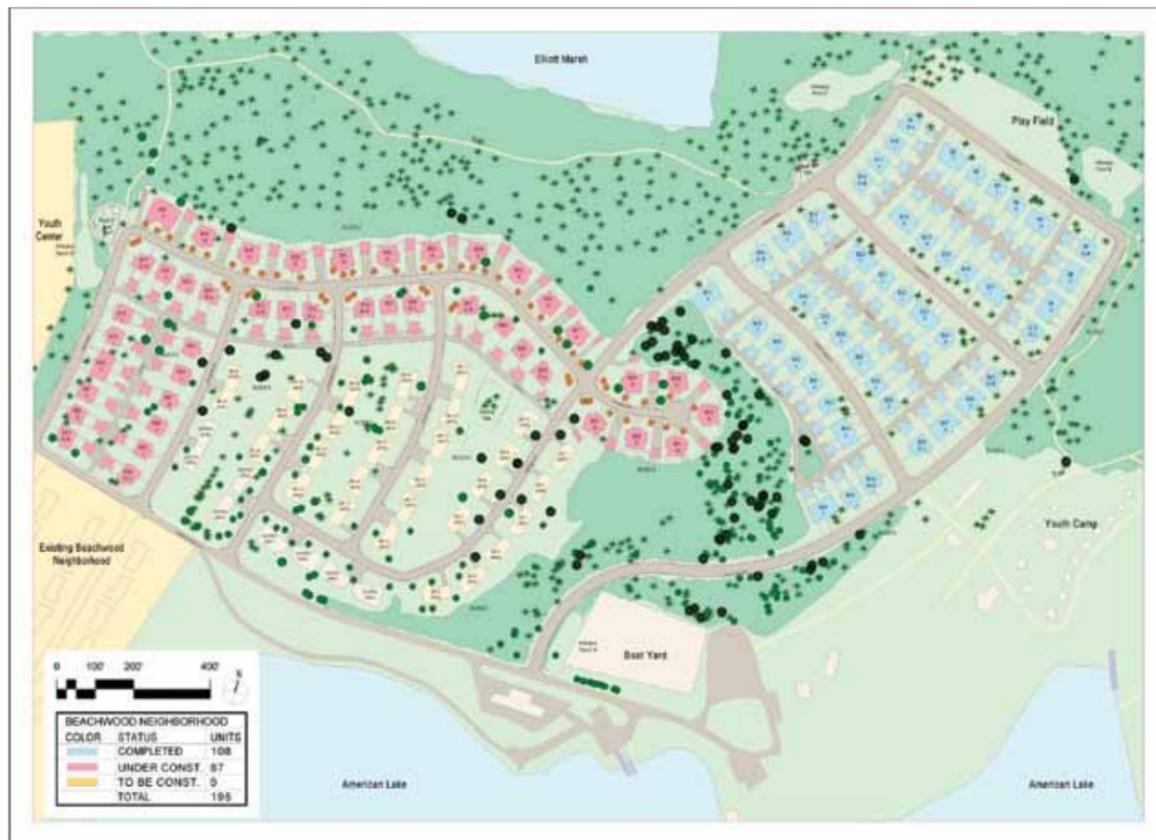


FIGURE 6-15. Proposed design plan for the Beachwood neighborhood at Fort Lewis, Wash., incorporating some of the installation's natural features, such as the woodland and the shores of American Lake into the design.

Courtesy of RCI Office.

Fort Lewis is a gem, one of the Army's real estate crown jewels, because of its setting with hills rising above the Puget Sound, natural valleys, crests and corridors. So the design challenge there was to respect the contours, work within the topography itself, and emphasize the water views. I recognized that if we were a private enterprise, we'd consider those sites to be very high value, reserved for recreation and other public uses and for certain housing. Then, inner sites, away from the water and closer to highways, would be natural locations for logistics, maintenance, major shopping and community facilities.⁷⁹

In response to Apgar's ideas, EQR/Lincoln and the Army decided to change the location of some of the new home construction on the installation. The alteration of the footprint, however, changed the scope of the Environmental Assessment, requiring additional work and delaying its completion. Since the Environmental Assessment needed to be approved before the CDMP could be finalized, the delay pushed back the completion of the CDMP. In February 2001, the senior mission commander, Lieutenant General Hill, finally approved the assessment, finding "no significant direct, indirect, or cumulative impacts on the quality of the natural or human environment."⁸⁰

Because of these delays, the Army missed the original May 2001 deadline for CDMP approval. Indeed, not until that month did it submit a Fort Lewis CDMP to the Office of the Secretary of Defense (OSD) for review. Here the CDMP experienced further delays, as the OSD's Competitive Sourcing and Privatization Office expressed concern that the CDMP did not guarantee that Fort Lewis's existing inadequate housing would be eliminated by 2010. In addition, the office explained, the CDMP had provisions allowing the partner to walk away from the deal, thus shifting the risk from the partner to the Army. Once Fort Lewis changed these two things, the OSD provided its acceptance and passed it on to the OMB. The Fort Lewis deal required no monetary contribution by the government; therefore, the OMB did not score the project and it did not encounter the difficulties that Fort Hood experienced in its OMB review.

Don Spigelmyer, former RCI director, touted the program:

This is a key, positive aspect of public-private ventures that the RCI program provided and a goal for any future government privatization initiatives. It shows that the government can leverage its assets of land and structures, plus a potential future income stream, to bring in billions of private-sector dollars to provide homes and infrastructure for military families at no additional cost to taxpayers. This type of collaboration can work in many other areas. It highlights what government and private industry can accomplish when they work together. I believe we are going to need this type of synergy to stay competitive in the future global economy.⁸¹

Congress approved the Fort Lewis CDMP in December 2001.⁸² In its approved form, the CDMP proposed that EQR/Lincoln would build 953 new houses and renovate 2,610 homes within the first 10 years of the project, although the 366-unit housing deficit would only be eliminated after year eight. In addition, during the 50 years of the partnership, EQR/Lincoln would complete three renovations of historic home interiors and would ensure that the "end-state average age" of all others was approximately 24 years. EQR/Lincoln would also construct two community centers within 10 years, would either replace or upgrade all of the installation's 110 playgrounds, and would build a centrally located park.⁸³ The CDMP also stated that EQR/Lincoln would work so that all Fort Lewis family housing obtained ISR Green Status. RCI Housing Manager Louis Bain explained that the objective was to "negotiate the highest-level quality standard of housing for the Army at Fort Lewis and make sure that it's going to survive for the future."⁸⁴

In addition, the CDMP outlined the way in which Lewis's RCI project would be governed. The Army and EQR/Lincoln would enter into an LLC, called Fort Lewis Communities, of which EQR/Lincoln would be the managing member. This meant that its employees would conduct the day-to-day management of the project, including putting together annual project budgets.⁸⁵ The Army's Residential Communities Office would work in tandem with EQR/Lincoln, and Anton Tramp, the RCI Portfolio Manager in Washington, D.C., would provide oversight.

After Congress gave its approval, Fort Lewis began a transition period during which financial and legal documents were negotiated prior to the transfer. This period, scheduled to last 90 days, allowed EQR/Lincoln to prepare to assume responsibility for on-post housing maintenance

and management, while also permitting the Fort Lewis housing office to restructure and prepare for its altered role. EQR/Lincoln worked to get soldiers to sign their housing leases so that the BAH funds would be automatically paid to the partner once the transfer of housing was complete. The partner and the Army also held community update sessions to inform residents of the upcoming changes and to answer questions about how housing would operate once EQR/Lincoln assumed control.⁸⁶

Transfer of the housing was initially scheduled for March 1, 2002. In January 2002, however, the transfer was delayed when EQR/Lincoln discovered mold in some of the homes. According to EQR/Lincoln, when it conducted its initial inspection of Fort Lewis housing, it found no indication of mold. That may have been because of drought conditions at the time of the inspection, or because maintenance budget shortfalls led to the repair of mold symptoms but not the treatment of the causes of mold. Whatever the case, mold was now present and discussions commenced over how to address the problem. The Lewis case was one of the first instances in which the property management community faced the issue of residential mold, and little information was available upon which to base decisions. Eventually, the two sides agreed to transfer the majority of the homes on April 1, 2002, a month later than originally scheduled, and to have the Army provide EQR/Lincoln with a contract (to be paid out of project funds) to remediate the mold in the remaining homes before taking possession of them. Approximately 450 homes required remediation, and these were expected to transfer to the partner within 60 days of closing.⁸⁷

Although mold prevented many Fort Lewis units from transferring on April 1, EQR/Lincoln did receive a number of historic homes at that time. Fort Lewis was the first pilot project to confront

the issue of how to renovate historic homes to meet modern living standards while still maintaining the buildings' unique historic character, as mandated by the *National Historic Preservation Act of 1966* (NHPA). This act required government agencies to help preserve historic resources in the United States through three mechanisms. First, the law established the National Register of Historic Places to list all "districts, sites, buildings, structures, and objects significant in American history, architecture, archaeology, engineering, and culture." Second, Section 106 of the act required the heads of any federal or federally assisted project to "take into account" the effects of undertakings "on any District, site, building, structure, or object that is included in or eligible for inclusion in the National Register." Third, the act created the Advisory Council on Historic Preservation and authorized it and State Historic Preservation Offices (SHPO) to oversee the Section 106 process and the National Register in a federal-state partnership.⁸⁸ These provisions meant that whenever a federal entity, such as the Army, began an undertaking, it had to investigate what archaeological or historical resources might be affected, and then consult with the SHPOs and the Advisory Council about how to avoid or mitigate the consequences.

To streamline consultation with SHPOs and the Advisory Council on Historic Preservation, the Office of the ASA, I&E conferred with the Advisory Council in 2000 about what to do with its large stock of houses that were approaching the age of 50, many of which dated from the Wherry and Capehart era. The Army estimated that it had approximately 19,000 Capehart and Wherry houses, representing about 21 percent of the service's entire housing stock in the United States. With such a large number of homes at stake, it was imperative that the Army take measures to streamline

compliance with the Preservation Act. Negotiations with the Advisory Council resulted in the development of a document in May 2002 entitled "Program Comment on Capehart and Wherry Era (1949-1962) Army Family Housing, Associated Structures, and Landscape Features." Essentially, this agreement, which was based on historic context studies of Capehart and Wherry housing and included guides to preserving design aspects, allowed the Army to proceed with renovations or demolitions of approximately 20,000 buildings without going through lengthy negotiations with SHPOs.⁸⁹

The program comment allowed EQR/Lincoln to proceed with renovations of its Capehart housing, most of which was in relatively good shape. Prior to privatization, the Army had upgraded many of the homes in the Beachwood, Madigan, and Davis Hill neighborhoods, which contained Capehart-era single-family homes and duplexes. However, New Hillside, the remaining neighborhood of Capehart housing, was not in such good condition. These homes had partially upgraded interior spaces, but still retained their "original '60s era aluminum windows and plywood siding."⁹⁰

For other historic houses, the Army had to develop programmatic agreements with the appropriate SHPO before renovation or demolition could occur.⁹¹ Fort Lewis thus consulted with the Washington SHPO and the Advisory Council on Historic Preservation on those homes that predated Capehart and Wherry. These negotiations culminated in a Memorandum of Agreement that required the Army to prepare a National Register of Historic Places nomination package for a Fort Lewis Historic District by October 2001 and to document 300 historic homes in the Broadmoor and Greenwood neighborhoods by January 2002.⁹² Built in the 1920s and 1930s, these two neighborhoods served as officers' housing and were a part of the community that

the developers designated the Garrison District. In most cases, the necessary modifications to these homes were minor, and the partner worked hard to preserve the historic character of the homes.⁹³

Including historic houses, Fort Lewis's CDMP goal was 3,982 homes. As the project progressed, however, it became clear that more homes would be needed because of a projected influx of troops to Fort Lewis due to BRAC. In both 2004 and 2005, new HMAs were completed, indicating that Fort Lewis actually needed 4,954 homes. Since EQR/Lincoln's financing was based on a much lower number, it had to look for creative ways to finance the new development. In one case, EQR/Lincoln negotiated with the government to stop converting carports into garages on existing homes and used the funds originally slated for that purpose to build 44 additional homes. In other cases, EQR/Lincoln was able to increase its scope thanks to BAH increases and the assumption of additional debt.⁹⁴

Another way in which the Army proposed to address the housing deficit at Fort Lewis was by combining privatization at nearby McChord Air Force Base, which had a housing surplus, with Fort Lewis's RCI program. This idea, urged by U.S. Representative Norman Dicks (D-Washington), was first floated in 2004, soon after the Army had successfully privatized housing at the Naval Postgraduate School as part of the RCI project at the Presidio of Monterey in California. Fresh from this success, leaders wondered whether the same approach could work at Fort Lewis. Discussions between the U.S. Air Force and the Army occurred throughout 2005 and 2006. Although the Army was willing to work with the Air Force and EQR/Lincoln had no objections to combining the two projects, the Air Force expressed considerable reluctance.

One issue was that the Air Force had been planning to privatize McChord in combination



FIGURE 6-16. New RCI housing at Fort Lewis.

Courtesy of RCI Office.

with Travis and Fairchild Air Force Bases and it was not enthusiastic about retiring McChord from this threesome. However, given that Fort Lewis was already privatized and EQR/Lincoln was already working on the installation, it made little sense for McChord to hire a different partner. Another concern revolved around the number of homes that would be involved. In exchange for allowing its surplus housing to be used, the Air Force wanted the Army to build 349 new houses and transfer 90 other houses to McChord. Because of project finances, the Army could only guarantee the construction of 293 homes. The 56 others might be renovated, rather than new construction. Discussion continued and in 2008 the two sides finally reached an agreement, transferring a few hundred additional homes to the partner in October 2008 and agreeing on the construction of another few hundred.⁹⁵

In addition to dealing with the greater number of required houses, EQR/Lincoln also faced costs associated with higher construction standards for family housing. In 2002 and 2003, the Army issued new minimum construction standards, which, as Boyd Lucas, EQR's Executive Development Manager, explained, "increased bedroom, living areas, and patio square footage" requirements while also "add[ing] amenities that were considered upgrades

to the existing level of specifications." EQR/Lincoln had not planned for such upgrades in the original CDMP and had to strategize as to how it could meet the new requirements while staying within its financing. According to Lucas, the "solution was to convert our conventional construction to a modular or factory-built product and apply the savings to the upgrades."⁹⁶

Modular housing, or housing constructed at a factory and shipped to and assembled at a home site, had existed in the United States since the late 1800s. Sears Roebuck Co. was one of the first firms to sell prefabricated homes, producing over 500,000 between 1910 and 1940. When World War II ended, modular home sales increased dramatically, in part because returning soldiers swelled the demand for housing. Yet modular homes carried a negative connotation, as home owners sometimes equated them with run-down, cheap mobile homes. As technology advanced in the 1980s, modular home builders were able to counter these notions by producing larger, sturdier, and higher-quality homes.⁹⁷

In 2004, EQR/Lincoln and the Army began looking in earnest at using modular homes, focusing on Champion Homes of Oregon as a possible builder. GMH, the partner at Fort Hamilton, New York, had already explored the modular home possibility at that installation, and the Office of the ASA, I&E had approved the use of modular construction there. Deputy Assistant Secretary Armbruster explained that, with new technology, "the result is well built homes with greater efficiency and with significant savings." Anton Tramp, RCI Portfolio Manager for Fort Lewis, agreed. "Because they are better built," he declared, "they take less maintenance over the years."⁹⁸

Not all were as enamored of the modular home proposition, however. Some, such as Joseph Zarelli, a Washington state senator, feared that using modular



FIGURE 6-17. Lieutenant General Edward Soriano (at right), I Corps and Fort Lewis Commander, joins a young Army family at a ribbon-cutting ceremony to dedicate a new RCI family housing area at Fort Lewis, Wash., in 2002.

Photograph by Michael P. Cullum. Courtesy of U.S. Department of Defense.

homes built in Oregon factories "could potentially hurt the local economy with a loss of up to 150–180 jobs [in traditional home building] over a 5–7 year period and impact of \$10M–\$20M." Fort Lewis Commander, Lieutenant General Edward Soriano, had the same concern. Although he had examined a model modular home and was "impressed with the quality of construction," he wanted to make sure that there were no negative impacts on the economy. Washington's U.S. Representative Norman Dicks expressed similar concerns.⁹⁹

However, EQR and the Office of the ASA, I&E were ready to move forward with the program, based on the quality of the model homes that they had examined and on experiences at Fort Hamilton. Principal Deputy Assistant Secretary Prosch talked with Dicks in August 2004 and got Dicks' approval of the program. Prosch then conveyed to Lieutenant General Soriano his own and Dicks' support and told EQR to go ahead with the modular construction. Yet Soriano still had doubts and told EQR that it could not build the modular houses until he gave his approval. This situation highlighted one of the issues that sometimes

developed with RCI: Who had the final authority for RCI decisions? Was it the commanding general at the installation? Or was it those in RCI and the Office of the ASA, I&E? When these questions arose at installations, the partner sometimes got caught in the middle. In this case, although Armbruster declared that "giving the EQR the green light" was "not Soriano's decision to make," EQR was reluctant to go forward until the commanding general was on board. Fortunately, Soriano was soon convinced that modular housing was both appropriate and desirable, and EQR began implementing its modular construction plans.¹⁰⁰

For the most part, the modular home construction plan turned out well. Yet the quality of the homes sometimes posed a problem. Fort Lewis Garrison Commander Colonel Thomas L. Knight, for example, informed EQR in 2006 that random inspections of already constructed homes had uncovered "large cracks (not just hairline cracks) along walls and around doors; kitchen and bathroom counter tops pulled away from walls; and interior doors that would not close properly." Inspectors then looked at modular homes just being assembled on the base and found cracks in the same places. Given these problems, Knight believed that the modular construction was not of sufficient quality for his soldiers, and he told EQR to stop construction "immediately."¹⁰¹

When EQR/Lincoln and the Army contacted Champion Homes, Champion informed them that the cracks were not due to any "structural deficiency or design issue." Steve Leedom of Champion Homes insisted that "The homes are as strong and well engineered as any housing building at Fort Lewis." He volunteered to have Champion train maintenance staff to fix the repairs so that they did not reoccur, and he also extended the warranty on the homes for an additional year "to

express Champions [sic] confidence in the process and to help alleviate any concerns that RCO [Residential Communities Office] may have about the homes.¹⁰² According to Kimberlee Schreiber, managing director of Fort Lewis Communities, these offers allayed the Army's concerns and indeed Champion eliminated many of the cracking issues. Schreiber noted in 2007 that EQR/Lincoln generally had fewer work orders for the 360 modular homes than they did for stick-built homes. By 2007, Fort Lewis modular housing was regarded as a success; RCI staff often gave tours of the housing to government representatives, Army installation commands, and even the private sector.¹⁰³

Disability access posed another difficult issue at Fort Lewis. In April of 2004, seven families, grouped together as Parents Against Disability Discrimination (PADD), filed suit against EQR/Lincoln, charging it with violating the *Fair Housing Act*, the *Rehabilitation Act*, the *Americans with Disabilities Act*, and the Constitution, by discriminating against families with disabilities. The plaintiffs' complaint, which did not name the Army as a defendant, stated that Fort Lewis housing, bus stops, playgrounds, and parks were inaccessible to those with disabilities, and that EQR/Lincoln had made it difficult for families to obtain modifications to their homes to accommodate disabled residents. In addition, the complaint alleged that EQR/Lincoln required families to disclose the disabilities of family members prior to receiving on-post housing, which they claimed violated federal law.¹⁰⁴

EQR/Lincoln defended itself against the allegations, pointing to a specific section of its CDMP devoted to the Exceptional Family Member Program, which aided families with special needs. Although Army policy called for only 5 percent of the housing stock to be adaptable for those with disabilities, EQR/Lincoln's Exceptional Family

Member Program had committed to making 10 percent of the stock adaptable because it knew that the Madigan Army Medical Center on the base attracted families with disabled children.¹⁰⁵ RCI authorities supported EQR/Lincoln's position, declaring that many of the allegations in the lawsuit were "without merit." Fort Lewis's own Residential Communities Office confirmed that it had received no complaints about housing discrimination by EQR/Lincoln.¹⁰⁶ From these different positions, the two sides began negotiating in 2004 to settle the case.

Negotiations bore fruit in 2005 when a settlement agreement was reached. According to the agreement, EQR/Lincoln would make 10 percent of the housing at Fort Lewis accessible for people with disabilities (something it had already pledged to do in the CDMP) and would also streamline processes related to modifications of on-post housing for disabled residents. EQR/Lincoln would also ensure that all new playgrounds, sidewalks, and parks were accessible to those with disabilities. In addition, the agreement put into place a grievance procedure overseen by a neutral party and required training of EQR/Lincoln staff on the rights of the disabled. The press release announcing the settlement stated that its terms would enable EQR/Lincoln "to enhance its already existing practices and procedures by adding measures to further improve accessibility to housing and public areas at Fort Lewis." Summer Krook, one of the plaintiffs in the case, hoped that the settlement would "serve as a model for improving accessibility for people with disabilities at military bases around the country and abroad."¹⁰⁷

In addition to disability access, Fort Lewis, like Forts Hood and Meade and other installations, faced dissatisfaction from some of its residents over a variety of other issues. This dissatisfaction sometimes appeared in resident surveys;

★ ★ ★ ★ ★ Equity Residential (EQR)

Equity Residential (EQR) was a pioneer developer in partnering with the Army under the RCI program. At Fort Lewis, Washington (now Joint Base Lewis-McChord), EQR has demonstrated flexibility and innovation to find the best means of providing more quality homes at a lower price. In 2000, the Army partnered with EQR/Lincoln Fort Lewis Communities, a joint venture between Equity Resident Properties (headquartered in Chicago, Illinois) and Lincoln Property (headquartered in Bethel Park, Pennsylvania). The primary goal at Fort Lewis was to provide soldiers and families with more and better quality housing, but housing development objectives also included improving energy efficiency through renovations, eliminating safety concerns, and enhancing neighborhoods as communities. The Army transferred the project to EQR/Lincoln in 2002, with Lincoln serving as general contractor and EQR—an S&P 500 company with properties across the country—heading management of the property and oversight of the project. In total, the installation includes 1,211 new and 2,997 renovated family homes, in addition to a system of interconnected walking trails and a new community center.

As a pilot project for the RCI program, Fort Lewis became a proving ground for new relationships between the Army and its private partners. Not only was the development the first to feature renovated historic homes, but EQR also successfully responded to fluctuations in the number of new versus renovated houses and the standards to which they would be built. Confronted with an increase in the number of residents expected to arrive at Lewis due to the Army's BRAC program, the company looked for creative ways to provide more homes at a lower cost,



FIGURE 6-18. EQR staff at a partner-sponsored event for Fort Lewis families.

Courtesy of RCI Office.

while also facing new Army construction standards issued in 2002 and 2003. In response, EQR offered an innovative solution: modular homes. These houses, manufactured off-site and shipped to their final destinations for assembly, enabled EQR to provide more homes while still controlling costs. The company also overturned perceptions about modular homes by delivering larger, sturdier, and higher-quality homes than skeptics expected, often ahead of schedule.

At the same time, EQR responded to calls for greater access for residents with disabilities. Although 10 percent of housing at Fort Lewis was designed to be accessible to people with disabilities, the company went further after a 2004 lawsuit, streamlining its processes for modifying housing for residents with disabilities and ensuring that all new playgrounds, sidewalks, and parks were accessible. In addition, EQR introduced a new grievance procedure and required additional training for its staff members. The company also sought to improve connections among Fort Lewis's several neighborhoods by using parks, connector streets, bicycle and walking trails, and open spaces. In 2008, the Army and



FIGURE 6-19. Ribbon-cutting ceremony for opening of new homes at Joint Base Lewis-McChord.

Courtesy of RCI Office.

Air Force combined the privatized housing projects at Fort Lewis and nearby McChord Air Force Base.

But current and future challenges remain for EQR, and they mirror the situation for many other RCI partners. Kimberlee Schreiber, managing director of

Fort Lewis Communities, stated that one of the long-standing issues is the inevitable discrepancy in experiences between families who get new homes and those who receive renovated homes. She explained, “The fact is, when we’re done here, you’re still going to have a thousand families in new homes and 3,000 families in older homes,” and soldiers of the same rank, paying their full BAH, could be in either one.¹⁰⁸ The result is some dissatisfaction among residents, and it may be more difficult for EQR to maintain high occupancy rates.

In part because of the challenges, EQR’s work at Joint Base Lewis-McChord has proved the value of adaptability in privatized military housing. “We’ve built to the need,” said Schreiber. “We’ve responded quickly. We’ve adapted to the market.”¹⁰⁹ With innovative approaches to providing less expensive housing while maintaining quality, EQR has made important contributions to the development of the RCI program.



FIGURE 6-20. Architect’s conception of proposed renovation of Hillside neighborhood, Fort Lewis, Wash.

Courtesy of Equity Residential.

other times, it was voiced at public meetings. Still other residents approached installation leadership when they felt that a problem existed. In 2003, an Army-wide annual resident survey compared Fort Lewis results with earlier years and found that overall satisfaction had declined at the installation between 2001 and 2003, although the survey questions were different in 2003 from those used in 2001. The survey responses seemed to indicate that residents with larger families, of lower ranks, or living in renovated (as opposed to new) homes were the most dissatisfied. The survey results suggested that homes were not large enough for those with big families, that RCI had not yet benefited junior enlisted as much as other ranks, and that

the same “have/have-not” syndrome that existed at Fort Hood was present at Fort Lewis.¹¹⁰ Specific complaints expressed by Fort Lewis residents ranged from soldiers not liking EQR’s decision to move a tot lot “because they would no longer be able to look out their window and see their kids playing,” to soldiers wanting to park on the street but not being allowed to do so.

Despite the criticisms, occupancy did not appear to suffer at Fort Lewis, as indicated by its average occupancy rate of 96 percent through April 2006. But at times, the issues were raised to a higher level. In 2005, for example, Commanding General Lieutenant General James Dubik called for the Fort Lewis Inspector General to investigate EQR’s services to Fort Lewis residents

after receiving complaints on his hotline. Dubik stated that he was generally pleased with EQR but that he wanted to ensure that the company was providing the service his soldiers required. The Inspector General polled 787 residents and tallied a resident satisfaction rating of 84 percent or higher. The Inspector General noted problems with work orders (which EQR/Lincoln disputed, stating that its maintenance crews were immediately responsive), but in general the inspection uncovered nothing out of the ordinary. As with the disagreement over modular house construction, however, the inspection irritated the ASA, I&E, who believed that the complaints were not in the Inspector General’s purview. Officials in the Secretariat wondered whether they needed

to “go out and brief the CG on privatization at some point.”¹¹¹ Just a year before, the Secretariat had issued a directive that, although “the Army must not shirk its responsibility to protect the morale and welfare of the soldier, ... intervention in day-to-day operations of housing or the typical landlord/tenant relationship is not conducive to best business practices.”¹¹²

The relationship between the Army and the partner at Fort Lewis frayed in other ways too as RCI implementation continued. One area of difficulty was communication among the Residential Communities Office staff, the garrison commander, and the partner. According to RCI policy, the Residential Communities Office had the task of advising the installation or garrison commander

about RCI, but for various reasons, including high turnover of Residential Communities Office staff and lack of confidence in the staff, the garrison commander generally interacted directly with EQR/Lincoln.¹¹³ In addition, EQR/Lincoln would sometimes disagree with the decisions made by the Residential Communities Office and take up its concerns directly with the RCI Portfolio Manager in the Army Secretariat, again removing the Residential Communities Office from decision making. In both cases, the exclusion of the office staff made it difficult for the partnership to function as a collaborative, cooperative effort.¹¹⁴

At least in part because of these difficulties, animosity grew between the Residential Communities Office and EQR/Lincoln staff. It did not help that, contrary to the advice of Fort Hood personnel, the EQR/Lincoln office was located not in the same building as the Residential Communities Office but on the other side of the installation. While all installations experience regular changes in their staffing, the Residential Communities Office had substantial turnover, with five directors in as many years. Some of this was plain bad luck due to retirements, but it seemed that there was a general lack of planning regarding who would direct the Residential Communities Office. For several months in 2004 and 2005, there was no director—the position was filled by an acting director on a renewable 120-day contract. The office also at some points had difficulty maintaining even minimal staffing. In late 2004, for example, three out of five Residential Communities Office positions were vacant. This frequent turnover created a perception among EQR/Lincoln personnel that the Army lacked commitment to the RCI program, and it impeded the formation of lasting partner relationships. As Boyd Lucas of EQR/Lincoln put it, “We are one of the most

successful projects in Privatization, yet we have one of the worst partnerships.”¹¹⁵

It is true that for many of the RCI program’s initial years, conflict between the two sides prevented collaboration. Over time, however, the relationship between the Residential Communities Office and EQR/Lincoln, along with the relationship between the installation and the office, improved, thanks to concerted efforts on both sides. The hiring of Rob Boisvert in 2007 as chief of the Residential Communities Office helped, as Boisvert reached out to both EQR/Lincoln and the garrison commander. EQR/Lincoln also held sessions with Army representatives to try to identify ways to improve relationships. “It’s a 50-year partnership!” one lessons-learned document declared, and both sides committed to making the partnership last.¹¹⁶

In spite of periods of friction, EQR/Lincoln achieved significant success at Fort Lewis. By 2003, just one year after the transfer of Fort Lewis’s housing stock, EQR/Lincoln had constructed 191 new homes and redeveloped 163 existing homes, making it possible for the initial phase of development to be reduced from ten years to eight years.¹¹⁷ This faster construction, together with the addition of modular home construction and other changes, necessitated revisions to the CDMP. Discussions began in 2006, but the CDMP revision was put on hold in the autumn of 2007, due to the unresolved issue of merging McChord Air Force Base housing with Fort Lewis housing.¹¹⁸

The RCI program at Fort Lewis, then, despite some challenges, was generally a success. With its modular construction program, Lewis provided an innovative way to supply less expensive housing that, in the minds of RCI officials, was as good as, if not better than, stick-built homes. Residents generally supported the RCI program, even though



FIGURE 6-21. Exterior view of new community center at Fort Lewis, Wash.

Courtesy of RCI Office.

there were some criticisms and ideas for bettering the process. Perhaps most significant, the Lewis project provided some good “lessons learned”—even through the example of mistakes—regarding the importance of partner relations.

FORT MEADE (MARYLAND)

Implementation of RCI proved more difficult at Fort Meade than at either Fort Hood or Fort Lewis. Meade’s housing had deteriorated for so long that many residents did not believe that RCI could actually improve it, and occupancy declined accordingly. Both the partner and the RCI team worked hard to devise and implement solutions to this and other problems.

Chapter 5 discussed Fort Meade’s award of its RCI project in March 2001 to MC Partners, LLC, a partnership of Picerne Real Estate Group and The IT Group. MC Partners then established a Property Management Program office, consisting of a central property management team. Meanwhile, the Army created its RCI Liaison Office, which initially consisted of 12 individuals, many of them administrative. The partnership between the Army and the developer, meanwhile, became known as Meade Communities.¹¹⁹

The Fort Meade housing office—including George Barbee, a Military District of Washington



FIGURE 6-22. Interior of new community center at Fort Lewis, Wash.

Courtesy of RCI Office.

(MDW) employee, and Caryn Washington, a contractor—worked with MC Partners in 2001 to develop the CDMP, while three consultants from Jones Lang LaSalle (JLL) provided financial guidance. As development of the CDMP progressed, it became increasingly apparent to the parties involved that renovation of almost the entire stock of housing would be necessary. John Picerne, president of Picerne Real Estate Group, called the existing housing “deplorable” and pledged, according to one report, that his firm could “address [the] problems by applying market standards to military housing.”¹²⁰ In May 2001, Picerne met with Fort Meade residents, telling them that MC Partners was committed to providing them with the kinds of homes available off post but in a way that would “maintain military traditions.” “You are the client,” Picerne assured the residents. “We have to make you happy.”¹²¹

In May 2001, the Army officially kicked off the CDMP process by hosting a signing ceremony at Fort Meade, attended by Acting Secretary of the Army Joseph Westphal, MDW Commander Major General James T. Jackson, Garrison Commander Colonel Michael J. Stewart, John Picerne of Picerne Real Estate Group, U.S. Senator Paul Sarbanes (D-Maryland), U.S. Representative Benjamin Cardin (D-Maryland), and former Assistant

Secretary of the Army (I&E) Mahlon “Sandy” Apgar, IV. The stature of the attendees demonstrated that RCI privatization at Fort Meade would fall under a spotlight due to the installation’s proximity to the Pentagon and Washington D.C. This level of attention was an additional burden for the Fort Meade RCI staff, and something to which their colleagues at the other pilot installations needed to pay little attention. In the ceremony, speakers noted that under the still-developing CDMP, MC Partners would construct 2,800 new or replacement houses, all of which would have at least three bedrooms. In addition to the housing, MC Partners would construct a community center and five neighborhood centers. As Major General Jackson explained, “In the future we expect you to live in high-caliber master plan communities—a community of neighborhood centers planned with each and everyone [sic] of you in mind.”¹²²

Throughout the preparation of the CDMP, Fort Meade officials gave high priority to getting input from residents. A Joint Advisory Committee reviewed neighborhood layouts, proposed amenities, and examined samples of floor tiles, carpet, and countertops.¹²³ This allowed residents to feel a part of the CDMP process, while also giving the partner valuable feedback on what residents wanted.

In addition, preparation of the CDMP was a true collaboration between the Army and its partner. Caryn Washington, who was extensively involved with the CDMP, remembered working “very closely” with Lori Hanson of MC Partners to develop housing policies on “everything from waiting lists to assignment procedures as to the resident.” George Barbee acted as the intermediary between the Army and MC Partners and negotiated any disagreements. However, these were not frequent, and Washington recalled that the Army

and MC Partners “had a really, really good working relationship” as a result of “working very long nights” together on the CDMP.¹²⁴

With that input, the partner completed the CDMP in the summer of 2001 and submitted it to the Army and the U.S. Department of Defense (DOD) for review.¹²⁵ Originally, Meade’s transfer closing date was set for October 1, 2001, but since both Forts Hood and Lewis had selected their developers before Meade, the Army wanted those installations to transfer housing first.¹²⁶ Then, in late 2001, The IT Group, Picerne Real Estate’s partner in the Meade venture, filed for bankruptcy. With the Army’s approval, John Picerne bought out The IT Group’s interest in the project, formed Picerne Military Housing as a branch of the Picerne Real Estate Group (with a focus on both construction and property management), and told the Army that he would “do everything in my power to uphold what we said we would do.” Picerne Military Housing was able to maintain its financing and, although the project was delayed, it continued unhindered.¹²⁷

As Fort Meade’s CDMP went through its various reviews, specific details about what Picerne would do emerged. In essence, the plan was for Picerne to demolish 2,440 of the existing 2,862 homes, renovate and maintain the other 422 homes (which included historic properties), and construct 2,748 new homes and five community centers. Picerne would also provide amenities, including swimming pools, parks, baseball diamonds, and jogging and biking trails. When completed, the installation would have 3,170 new or remodeled houses. For its part, the government would convey the housing to the partner and the partner would lease the land on which the homes would sit. Because these conveyances were the only government outlays on the project, no credit

authorities were used and no OMB credit scoring costs applied.¹²⁸

In December 2001, the DOD submitted the CDMP to Congress for review. Congress provided its approval in the spring of 2002 and on May 1, 2002, responsibility for 2,500 Fort Meade family housing units was transferred to Picerne. However, the transfer was not a smooth process for several reasons.

After completing the CDMP, George Barbee, who was actually an employee of the Military District of Washington and not of Fort Meade, turned his attention to privatization at Fort Belvoir and Fort Hamilton, two other installations within the MDW. According to consultant Caryn Washington, their departure drew many of the experienced RCI administrative staff away from Fort Meade, resulting in gaps in coordination with the new partner when the Army formally transferred operations to Picerne. Until the May 1, 2002, transfer, the installation had approximately four staff members working in the Army housing office with just a handful of contractors, and they had responsibility only for off-post housing assignments and terminations. In addition, for a period of more than six months during late 2001 and early 2002, there were no maintenance crews working at Fort Meade. As a result, Picerne inherited a huge backlog of maintenance orders and a number of highly dissatisfied residents.¹²⁹

Communication problems between Fort Meade’s RCI Liaison Office and Picerne were highlighted when actual implementation of RCI began. The RCI staff felt that Picerne did not adequately inform the staff of its plans. Picerne, meanwhile, thought that RCI personnel were micromanagers. For example, the CDMP dictated that Picerne’s office would keep certain hours. Once the transfer occurred and Picerne became

more familiar with the times that people needed the office, it altered those hours, but did so without informing the RCI staff. Though seemingly a small thing, it was emblematic of a deeper antagonism. “That’s where the negativity really truly began,” Washington explained. “It was basically butting heads.”¹³⁰

It took a couple of years, a changeover of staff on Picerne’s side, and the selection of Tom White as head of the Fort Meade RCI office in 2003 for things to begin to improve. The Army instructed White that his major task as head of the Meade RCI office was repairing the Picerne relationship, and he took it to heart. Essentially, he told his staff to stop looking at Picerne as a contractor and start looking at Picerne as a partner. “This relationship was not contractual but was a partnership,” White stated. “The Army was not in a controlling position nor a demanding position, but a cooperative and supporting position.” He also conducted informal conversations with Picerne personnel to let them know that he was willing to listen to them.¹³¹

Although interactions between Picerne and the Meade RCI office gradually improved, Picerne also faced opposition from Fort Meade residents, despite a concerted public relations campaign waged in the installation newsletter. According to Aimee Stafford, who had started working as a contract communications specialist in the RCI office at Fort Meade in the latter part of 2001, the problem was that both Picerne and the RCI office had raised residents’ expectations too high about how RCI would work. Stafford remembered telling soldiers, “It was going to be great and it was going to be great tomorrow.” “The partner was going to come in on Monday,” she continued, and “Tuesday things were going to be different.” Instead, Picerne faced the huge maintenance backlog and its response



FIGURE 6-23. A duplex at Fort Meade, Md., before the implementation of RCI.

Courtesy of Picerne Military Housing.

time suffered. Picerne also had little experience with military families and, according to Stafford, “just getting used to that and getting it right took several months.”¹³² Because residents had unrealistic expectations about the transfer, they quickly became disappointed.

To resolve these concerns, Picerne and the Army took several steps. First, they addressed the issues in the Meade Communities Management Council meetings—the entity established by Meade Communities to execute the CDMP.¹³⁵ Minutes from a meeting that occurred on August 22, 2002, for example, indicate that the council discussed inadequate responses to emergency work order calls, complaints about the completion of work orders, and mold issues in some of the houses.¹³⁴ Second, the Fort Meade RCI office established a RCI hotline for residents to call to provide input on how housing services could be improved.¹³⁵ Third, Garrison Commander Colonel John W. Ives held meetings with neighborhood “mayors” and counseled them to have patience as the changes occurred. “Keep everything in perspective,” he advised. “They (Picerne Military Housing) will have some shortcomings,” but it was important for the mayors to be “visionary”

and to “bear with us.”¹³⁶ Fourth, the RCI office published articles in the installation newsletter *Soundoff!*, explaining what RCI entailed and informing residents that Picerne was not a contractor but an Army partner committed to providing “the best possible quality of life for our military families.”¹³⁷ These steps helped, but some soldiers were unwilling to give Picerne a second chance. As Stafford observed, “If they made a mistake once, that was it.... You were going to hold them up to winning back your trust.”¹³⁸

This element of distrust was something that developers fought against at almost every installation where RCI was implemented. Because the developers were private and not military entities, many soldiers thought that the partner was trying to make money at their expense. Ladye Blair, RCI director at Fort Irwin, noted, “The military mind ... has an inherent distrust of private business.”¹³⁹ One way that developers tried to ease those suspicions was by hiring former military personnel or spouses of military personnel to work in their offices, something that Actus Lend Lease did at Fort Hood to great effect. Picerne tried to build on this example by hiring individuals such as Bill Mulvey, who had formerly done public relations work for the Army, as senior managers. However, not until it had experienced numerous problems with residents did Picerne begin hiring retired military and military spouses for its on-the-ground help. According to Stafford, that “made a big difference in knowing what people wanted.”¹⁴⁰ The central RCI office and the Headquarters of the Department of the Army (HQDA) also wanted to ensure that the housing projects would benefit from private-sector expertise.

Picerne struggled to keep its occupancy rates up after the transfer. According to one report, seven months after the transfer occurred,

occupancy at Fort Meade stood at only 80 percent of the 2,500 transferred homes, less than the 85 percent projected in the pro formas. By comparison, Fort Hood’s occupancy numbers never dipped much below 95 percent and were usually around 97 or 98 percent.¹⁴¹ There were several reasons for the poor occupancy rate at Meade. One was generalized distrust. Another was Picerne’s and the Army’s inability to convince soldiers that privatized housing was of high quality. A third was that the houses were too small.

While Meade had many vacant two-bedroom houses in its Argonne Hills North and South neighborhoods, most families required at least three bedrooms. Even singles wanted more space.¹⁴² In the 1950s and 1960s, most homes had just one bathroom and few bedrooms; having children share bedrooms was a normal thing. But by the twenty-first century, standards and expectations had changed dramatically. The average size of a home in the United States had increased from 983 square feet in 1950 to 1,695 square feet in 1974 to 2,349 square feet in 2004, and families were requiring more and larger bedrooms. If such housing was not available on post, they would look elsewhere.¹⁴³

According to Mulvey, another reason for the occupancy problem was that a large number of the houses that the Army had turned over to Picerne were uninhabitable. “These are houses that had had major fires, that had been gutted,” he remembered, “and now they’re on our books and we’re not getting any rent for that house.”¹⁴⁴ Mulvey also thought that Fort Meade’s reputation for having poor housing affected occupancy. No matter how well Picerne renovated the houses, Mulvey declared, soldiers had a mentality of “Woe is us. We live in horrible housing, and no matter what Picerne does, we live in horrible housing.”

Residents would tell new soldiers to go off post for housing, and occupancy suffered accordingly.¹⁴⁵

Fort Meade was not alone in its housing occupancy problems. A U.S. Government Accountability Office (GAO) report issued in 2006, for example, indicated that 16 DOD privatization projects had occupancy rates below 90 percent. The 16 included Army installations such as Fort Stewart, Fort Hamilton, and Fort Shafter/Schofield Barracks, all of which had occupancy rates below 80 percent, and Fort Leonard Wood and Fort Bliss, which sat at 83 percent. According to the report, several reasons existed for low occupancy, including the fact that in 2005 the DOD had met its goal of increasing the BAH to levels that required no out-of-pocket expenses for service members’ housing. That meant that more people could afford off-post housing. Other causes included the “poor condition” of homes not yet renovated and inaccurate HMAs that called for more homes than were really necessary.¹⁴⁶

Fort Meade, however, was the first of the pilot projects to struggle with low occupancy, and that posed a problem for Picerne because it meant that the company was not getting the income it expected. In attempting to solve this problem, the Army and Picerne took several steps. In January 2003, as the Army mobilized for invasion of Iraq, Fort Meade received an influx of unaccompanied reservists (those reporting without family members), which exceeded its barracks space. In response, Garrison Commander Colonel John W. Ives began assigning unaccompanied service members to two-bedroom houses and apartments. According to one newspaper account, this was only a temporary measure until Meade completed a new barracks complex in 2004, and it only applied to unaccompanied enlisted members at the Specialist E-4 level and above. By

April 2003, 60 single soldiers were living in family housing and this would later increase to 100. Even with this influx, though, occupancy continued to hover around 80 percent.¹⁴⁷

Privatization at Fort Meade also included the complexities of renovating historic structures. The original RFQ had mandated that the partner renovate and provide maintenance for Fort Meade's 112 historic houses (which pre-dated Capehart and Wherry housing), but as work on the original CDMP had progressed, compliance issues arose in relation to the *National Historic Preservation Act*.¹⁴⁸ As required by the NHPA, Fort Meade conducted negotiations with the Maryland SHPO, which wanted assurances that Picerne, in the words of George Barbee, would maintain the homes "to historic standards" and in "their original condition." The cost of doing this, in Barbee's mind, was too high for the project, but neither the Army nor the SHPO would budge from their positions. No resolution had been reached when it was time for the transfer of houses to Picerne, and the RCI Program Office in Washington, D.C., recommended that the closing be postponed until the issue was resolved. Barbee did not want to see a delay, so he pushed for the closing to occur without the historic homes included. As he later recalled, "we convinced the leadership to just draw a line around those 112 houses and leave those alone." Therefore, when the housing transferred to Picerne in May 2002, the historic homes were not included.¹⁴⁹ Finally, the Army and the SHPO came to terms on a programmatic agreement that the SHPO would work closely with Picerne to review and approve any changes to the exterior appearance of the homes. With this agreement in place, the 112 historic homes were transferred to Fort Meade on March 31, 2003.¹⁵⁰



FIGURE 6-24. A historic home at Fort Meade, Md.

Courtesy of Picerne Military Housing.

After transfer, maintenance work revealed that the historic homes contained lead-based paint, especially surrounding the windows. Since the housing was no longer under federal control, it became subject to Maryland Department of the Environment policies. According to those policies, residents could not occupy a vacant historic home until the department had certified that the developer had complied with lead abatement requirements.¹⁵¹ To take care of the problem, Picerne would have to remove the windows, strip away the paint, then reinstall the windows. However, the aged condition of the windows prevented this from being a realistic solution.¹⁵² Instead, the SHPO and Picerne decided that the windows should be replaced. Unfortunately, the windows that the SHPO wanted were too expensive for Picerne's renovation budget. For a year, Picerne and the SHPO discussed how to resolve the problem.¹⁵³ Because no new residents could move into a home until the Maryland Department of the Environment had verified that the lead paint was gone, occupancy of the historic homes dwindled, costing Picerne an estimated \$80,000–\$100,000 each month in lost rent. Finally, in November 2004, agreement came on cheaper windows that still retained the

characteristics of the historic homes, and the replacement process began. By the fall of 2007, approximately 85 percent of the historic homes had undergone the necessary renovations.¹⁵⁴

Another privatization problem occurred at Fort Meade in February 2003, when construction of new housing was stopped because land clearing uncovered a half-acre dump site in Neighborhood One. Most of the buried trash consisted of 1940s-era windows and typical household garbage.¹⁵⁵ Work stopped until an investigation of the site could occur. It was unclear why the Environmental Assessment (EA), required before the housing transferred to Picerne, had not revealed the dump site, but the area was a problem for new housing construction. Therefore, Picerne returned the half acre to the Army, reconfigured where it would construct housing to avoid the dump site, and continued construction.¹⁵⁶

This solution seemed to resolve the issue, but in December 2004 it appeared that methane gas produced by the dump site was beginning to migrate underground into areas near some newly constructed townhomes and near Manor View Elementary School. Monitoring detected no methane gas in the area at that time, but in June 2005 investigations showed that the gas was migrating underground in the direction of the new development. The Corps of Engineers implemented a venting system to allow the gas to escape, but tests in December 2005 indicated that methane levels were rising and gas was still approaching the homes. To preserve the safety of its residents, Picerne and the Army decided to evacuate those in the path of the gas. Twelve families were moved, two of them on the evenings of December 22 and 23, 2005.¹⁵⁷

Because of the timing of the relocations, the event was a public relations nightmare for Fort

Meade. The *Baltimore Sun* and other newspapers published stories about the gas, and some Environmental Protection Agency officials charged Army leaders with building homes before the site had been "thoroughly tested." Fort Meade's garrison commander and command sergeant major made personal door-to-door visits to the affected families, but resentment lingered. The houses remain vacant, and there is no indication of when residents will be permitted to return.¹⁵⁸

Meanwhile, Picerne began constructing new housing at Fort Meade. Picerne's plans called for building five new neighborhoods in 10 years, each with its own neighborhood center. In January 2003, before the dump site was discovered, Picerne broke ground for the building of Neighborhood One, consisting of 155 houses, 119 of which would be townhomes for enlisted soldier grades E-3 through E-5, while the rest would be homes for the higher officer grades O-4 and O-5.¹⁵⁹ (Picerne also started demolishing some of the older homes and relocating the families, while performing first-turn renovations on vacated homes.) One newspaper account reported that, "The average size of the new homes in Neighborhood One is 1,740 square feet and will feature a minimum of two and-a-half baths, a separate dining room, family room, breakfast nook and porches.... All of the new homes will have between three to five bedrooms."¹⁶⁰

In September 2003, Fort Meade saw the completion of the first new construction, as well as the opening of Potomac Place, the neighborhood center for Neighborhood One. Potomac Place was a landmark in the RCI program, as it was the first neighborhood center completed on any installation. The official opening occurred on December 18, 2003, when Principal Deputy Assistant Secretary Geoffrey Prosch gave a speech and cut the



FIGURE 6-25. A new townhome for junior non-commissioned officers in Fort Meade's Potomac Place neighborhood. Picerne Military Housing began construction of the neighborhood, which is now home to more than 500 families, in 2002.

Courtesy of RCI Office.

ribbon. Envisioned as a place where neighbors could play games, exercise, swim, and rent space for small parties, Potomac Place provided amenities that installations did not previously have.

Yet the construction of Potomac Place did not come easily. Bill Mulvey, Picerne's vice president of communications, remembered that when the partner first proposed the center, "the Army was very put off," thinking that it was merely "a waste of money." Whenever Picerne had undertaken non-military development, it had included neighborhood centers in its plans. "That's what we do," Mulvey explained. The partner finally convinced Army officials of the viability and utility of the center, but even Meade residents had a hard time grasping it at first. Mulvey stated that one soldier saw the neighborhood

center and thought it was "a new officer's club." But residents soon embraced the centers and, as RCI progressed at other installations, construction of such buildings became a part of many CDMPs.¹⁶¹

The completion of new housing, renovated housing, and the Potomac Place neighborhood center provided opportunities for Picerne to address its occupancy problems. An occupancy improvement plan developed in September 2003, for example, outlined a new strategy: residents would receive a new home if they agreed to live in a house designated for demolition while the new unit was under construction. This measure, the plan stated, could increase occupancy by 2 percent.¹⁶² But along with these opportunities, the new construction and renovations reinforced the divisive "have/have-not"



FIGURE 6-26. View of the Potomac Place Neighborhood Center at Fort Meade, Md. Potomac Place, which Picerne Military Housing and the Army officially opened in 2003, was the first neighborhood center completed on any of the RCI project installations.

Courtesy of Picerne Military Housing.

feeling, especially among residents in older homes, who wondered why they had to pay as much in BAH as those living in the new homes.¹⁶³

Dissatisfaction was registered in resident surveys. The surveys, which the Army conducted quarterly (polling a different 25 percent of the residents each quarter), graded Picerne in three categories: maintenance, property management, and quality of life. The three were averaged to generate an overall score. In addition to providing justification for incentive fees, the surveys provided Picerne with valuable feedback on "trends" and "areas of improvement." Just before Picerne assumed responsibility for the housing, Fort Meade came in dead last among 28 installations surveyed for resident satisfaction. In

2003, after the transfer occurred, Picerne scored a 6.3 (out of 10) in maintenance, a 7.1 in property management, and a 6.2 in quality of life—still last among surveyed Army installations. The Army recognized that many of these problems stemmed from the poor condition of the housing that Picerne had inherited, so in the initial years of the project Picerne was given a pass on its quality-of-life scores, enabling it to receive 100 percent of its incentive fees. In many ways, such as the fact that Picerne received the National Association of Installation Developers' 2003 Award for Excellence in Military Privatization, Picerne's performance seemed admirable. Nevertheless, it was not until 2007 that Fort Meade attained a top 20 ranking in terms of resident satisfaction.¹⁶⁴

★ ★ ★ ★ ★

Picerne Military Housing

Picerne Military Housing was one of the first partners in the RCI program, winning the bidding in 2001 for a pilot installation at Fort Meade, Maryland. John Picerne established Picerne Military Housing under the umbrella of the Picerne Real Estate Group, a Picerne family business founded in 1925. Picerne first made a bid for the contract to develop privatized family housing at Fort Carson before securing the development opportunity at Fort Meade. Since then, the company has successfully developed six other privatized family housing projects. Unlike many of the Army's partners, Picerne is a fully integrated company, acting as owner, developer, builder, and property manager for each of the projects it oversees. In all, the company serves more than 20,000 service members and their families across the country and has built or renovated more than 15,000 homes nationwide.

In addition to its leadership in the early stages of the RCI program, Picerne has remained in the vanguard of development, making numerous innovations at its communities. At Fort Meade, the company constructed the Army's first neighborhood center for an RCI project anywhere in the nation. Picerne followed its success at Fort Meade with a second contract at Fort Bragg/Pope Air Force Base (North Carolina), where the company implemented a Senior Unaccompanied Housing program, among the first of its kind. Later, also at Fort Bragg, Picerne added the Army's first community center in a Senior Unaccompanied Housing Development. In 2007, the company successfully incorporated an additional 627 family homes into its Fort Bragg project to accommodate base closures and realignments elsewhere.



FIGURE 6-27. Young resident at a Picerne-sponsored event.
Courtesy of Picerne Military Housing.

In 2003, Picerne partnered with the Army to build and renovate nearly 3,000 homes at Fort Polk (Louisiana), where the company housed displaced families during Hurricane Katrina and engaged in storm response activities during Hurricane Rita. The company also won contracts at Fort Rucker (Alabama) and Fort Riley (Kansas) in 2005, followed by Fort Sill (Oklahoma) in 2007 and Aberdeen Proving Ground (Maryland) in 2008. Throughout, Picerne has worked with local charities serving the communities surrounding its RCI installations and has obtained property tax waivers for all of its communities, enabling the company to channel additional funds into the communities it serves. Above all, the company has sought to provide quality housing and services to members of the armed forces and their families, in an approach that the company refers to as “Families First,” which one employee explained “means that every decision is made with the needs of [Army] families in mind.”¹⁶⁵



FIGURE 6-28. Picerne Military Housing neighborhood office at Fort Riley, Kans.
Courtesy of RCI Office.



FIGURE 6-29. Ribbon-cutting ceremony at the opening of Fort Bragg's Randolph Pointe neighborhood.
Courtesy of Picerne Military Housing.

In addition to resident dissatisfaction at Fort Meade, Picerne employees believed that there were a number of other reasons for the occupancy problems. They agreed with the Army about the causative effect of the poor condition of the transferred homes, which meant that renovations took more time and money than expected. Other factors to which Picerne employees attributed low rates of occupancy at Fort Meade included a boom in Anne Arundel County's housing construction, causing the rental market to be overbuilt; low interest rates that “created an exceptionally strong home buying market”; the DOD's program in 2001 to increase the BAH, leading to a 26 percent elevation in BAH at Fort Meade and allowing more soldiers to live off post; and security measures implemented after 9/11 that made it more difficult to access the installation.

These factors, coupled with Picerne's higher-than-expected operating expenses (since it had assumed the 4,000 backlogged work orders after the transfer), prevented Picerne from reaching the financial goals necessary to keep RCI moving at

Fort Meade. Interestingly, raising BAH levels hurt Fort Meade housing while it helped Fort Hood's. The situation highlighted the contrasting urban and rural nature of Forts Meade and Hood, respectively. Because Fort Meade was situated between Washington, D.C., and Baltimore, soldiers had a much greater choice of places in which to live than did soldiers in Killeen, Texas.¹⁶⁶

At the end of the second quarter of 2004, occupancy fell below 80 percent, with residents living in only 2,040 out of 2,622 homes, or 77.8 percent, considerably below the budgeted 86.1 percent. A position paper prepared for the Meade Communities Management Council explained that this low occupancy would “seriously impair” Picerne's execution of its initial development plan. Fortunately, Fort Meade's CDMP had stipulations in it for moving down the “waterfall” of potential residents, should occupancy issues exist. According to the CDMP, family housing at the installation was to be assigned in the following order:

- (1) Accompanied military personnel assigned or

attached for duty at Fort Meade, (2) Accompanied military personnel assigned or attached for duty at other military installations within 50 miles of Fort Meade, (3) Unaccompanied family members of military personnel, (4) Unaccompanied military personnel (married or single) assigned or attached for duty at Fort Meade, (5) Accompanied retired military personnel and spouses or widowed spouses of retired military personnel, (6) Accompanied DOD and federal agency civilians, and (7) Non-military, non-DOD, or non-federal agency personnel. A memorandum dated May 29, 2001, from then-Garrison Commander Colonel Michael Stewart, noted that when occupancy dropped below 80 percent for 90 days, Picerne could request approval of priorities five through seven. In the summer of 2004, the Meade Communities Management Council proposed to allow priorities five and six into housing.

However, Garrison Commander Colonel John Ives did not approve that action at that time, asking instead that Picerne try to reduce its turnover time (the time it took Picerne to prepare a house for occupancy once a resident had moved out).¹⁶⁷ But by October 2004, although no real improvement had occurred, Ives and the rest of the Management Council at least authorized family housing to be extended in December 2004 to single (“unaccompanied”) soldiers at or above the Sergeant E-5 grade and to federal employees.¹⁶⁸

Realizing that some soldiers might have difficulties with this, Ives addressed the issue in *Soundoff!*. According to Ives, occupancy at Fort Meade suffered because of “the negative attitude by some about where we live.” He noted that many incoming families were choosing to live off post rather than in older homes on Fort Meade. The result was less income to the partner and a subsequent reduction in the number of new homes

the partner could construct. Ives explained that Picerne was trying to improve the curb appeal, or external appearance, of the older homes so that people were more comfortable living in them. He then discussed the new policy of allowing federal employees and single soldiers above E-5 to live on post. But these classes would only be able to live in the older homes, not in newly constructed ones. Ives also let soldiers know that residents in older neighborhoods who wanted to move to homes in other older neighborhoods would no longer have that option. “These moves for personal preference cost the RCI program approximately \$1 million a year to fix up the vacated home as well as the one the family chooses to move into,” Ives asserted. He reassured soldiers that although the new policies might seem “like a big shift,” they really were just “common sense” and would enable the partner to construct more new homes at Fort Meade.¹⁶⁹

Opening up “the waterfall,” along with improving curb appeal and marketing on-post homes, produced the desired effects and occupancy began to increase in 2005.¹⁷⁰ However, the occupancy issues had the effect of causing the Management Council to wonder about the details of the original plan laid out by Picerne in the CDMP. As early as January 2005, the council held a meeting to discuss one of the issues: whether Fort Meade really needed 3,200 houses. That number, which the military had told Picerne it wanted, came from an HMA that was supposedly done before the RFQ was issued. However, it became unclear in 2005 whether the analysis had really been performed and, if so, how accurate it was. Therefore, the Army agreed to conduct a new HMA in 2005 to ascertain the housing needs with greater accuracy.¹⁷¹

Meanwhile, Picerne reviewed the CDMP and decided that “occupancy projections” used in the document were too aggressive. The original CDMP



FIGURE 6-30. Celebrating the opening of the first new home in the Potomac Place neighborhood, Fort Meade, Md.

Courtesy of Picerne Military Housing.

proposed replacing nearly every house on Fort Meade within the first 10 years. But because of the low occupancy rate, Picerne would not have the income to complete this ambitious program, nor was it clear that such extensive replacements were necessary. By May 2006 (four years after the transfer), Picerne had constructed only 497 houses—fewer than a quarter of the 2,748 new homes it had proposed to construct in the CDMP. Moreover, when the HMA was completed in 2005, it showed that Fort Meade had a surplus of 670 homes and that the installation could actually only support approximately 2,600 homes, rather than 3,200.¹⁷²

Facing this situation, Picerne began restructuring its plan, which was not easy. As John Picerne later recalled, the housing market boom in the

surrounding area and the loss of BAH from 670 surplus homes meant that the project faced “a difficult rework.”¹⁷³ To accomplish the task, Picerne representatives met with RCI staffers in the Pentagon throughout 2005 in an attempt to produce “a CDMP that makes sense.”¹⁷⁴

In 2006, Picerne produced a revised CDMP, based on a housing assessment that Fort Meade needed approximately 2,600 homes, rather than the original 3,200. The revision stipulated that Picerne would construct 724 new homes and renovate 1,641 others, ensuring that by December 2011 (the end of the Initial Development Period) every family housing unit would either be new or renovated.¹⁷⁵ The revised CDMP also included new provisions regarding the installation’s

historic houses. With this revised plan in place, occupancy continued to increase. In March 2007, the Army reported that families occupied 2,426 houses and apartments at Fort Meade, which, in the words of Garrison Commander Colonel Kenneth McCreedy, “mean[t] that the Picerne team has met the occupancy floor that our lender uses to define success.” Likewise, McCreedy related, Picerne had “begun to turn the corner of taking old houses offline and putting new or renovated homes back online.” In summary, at Fort Meade, “We’re managing the turn of quarters better, getting them ready for new occupants faster, and improving occupancy rates.”¹⁷⁶

Picerne and RCI staff had to struggle to solve a wide range of problems during the first five years of privatization at Fort Meade, but they continued to make progress towards the goal of having all inadequate housing eliminated by 2011, while also improving the quality of life at the installation. Aimee Stafford, RCI communications specialist, explained, “We really have a community here that Fort Meade couldn’t offer before,” one characterized by “neighborhood events and neighborhood centers and all of these great things that help to build the community.”¹⁷⁷ Clarke Howard, who worked for several years at Fort Meade before becoming its RCI Portfolio Manager, agreed: “In the last two and a half years, there are [several] new neighborhoods, not just homes but new neighborhoods that include community centers, swimming pools, everything.”¹⁷⁸

DEVELOPMENT OF PAM

As other installations prepared to implement RCI, the Army, with support from Jones Lang LaSalle consultants, developed the Portfolio and Asset Management (PAM) program to protect its assets and investments and to create and

implement portfolio enhancements. Ian “Sandy” Clark, who had been involved in military housing for several years in Panama and at Fort Ord, California, and Timothy McGarrity, his JLL lead consultant on PAM, collaborated to conceive and develop the PAM program.¹⁷⁹ PAM enabled the Army “to proactively and systematically manage the risks associated with the RCI portfolio, as well as the individual assets, to meet the Army’s housing privatization objectives.”¹⁸⁰ In essence, it enabled the Army to ensure that RCI was succeeding financially and achieving the goal of providing quality housing to soldiers and their families. Clark joined the RCI Program Office in Washington, D.C., in June 2001 and realized, based on earlier experiences he had had with privatization in the U.S. Marines, that the Army would need an oversight program once procurement and CDMP preparation were accomplished. After receiving approval from Assistant Secretary Fiori and Principal Deputy Assistant Secretary Prosch to go forward with their ideas, Clark and McGarrity met with Ted Lipham and Don Spigelmyer to brainstorm about how to develop a program that would have a standard process.¹⁸¹

JLL and the Army had been discussing oversight of the RCI program since the pilot project stage in 2000. At that time, the Army was primarily focused on the near-term goal of establishing the program and executing the transactions with the private sector. The Army had not yet focused on the portfolio or on sustaining long-term project functions such as the quality of life of soldiers and their families over the 50-year span of the housing contracts. PAM allowed the Army to provide timely input into certain key decisions made by the partnerships throughout the lives of the projects and to ensure program objectives were achieved over the long term.¹⁸²

The RCI Office tapped Sandy Clark to be the lead in the design and implementation of the PAM program, while McGarrity led the JLL team in supporting Clark and the PAM program. In December 2001, Clark and McGarrity also met with a tiger team of various stakeholders in the federal government and the Army to present what they called their “oversight” concept. Included on this team were representatives of the Office of the Assistant Chief of Staff for Installation Management, the Office of the Assistant Secretary of the Army for Financial Management and Comptroller, the Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs, the U.S. Army Corps of Engineers, and select RCI installations. All agreed that an oversight program was necessary, but each of the HQDA offices and HQ USACE wanted to be the one responsible for it. Clark listened to their concerns and spent much of 2002 seeking authorization for the Office of the Assistant Secretary of the Army for Installations and Environment to administer the program, a battle that Clark and McGarrity eventually won.

Clark and McGarrity completed the design of PAM in 2002 and implemented the program at the initial sites in 2003. Today, the program continues in operation at all RCI sites and headquarters. PAM utilizes the best practices from the real estate investment/management industry, along with the tools of sound governmental program oversight. By blending private-sector knowledge and management incentives with partnership agreement compliance, the Army has been able to design a highly effective oversight program. Several General Accounting Office studies on military housing privatization, as well as independent studies performed by the United States Military Academy and Army’s Lean Six Sigma consultants, have recognized PAM’s effectiveness. In addition, PAM has

been a primary factor in sustaining the early successes of the RCI program throughout the years.¹⁸³ Clark and the JLL team also developed standard operating procedures for the program and implemented them at Fort Hood in March 2003. After testing the procedures at Fort Hood, they applied them at Forts Meade and Lewis as well.¹⁸⁴

In January 2003, Assistant Secretary Fiori issued a memorandum to all installations “to announce the Army’s RCI PAM program and to solicit your support in its continued development and implementation.”¹⁸⁵ Fiori attached an executive summary of the program to the memo, which explained that PAM would measure RCI program performance at an installation based on “the service members’ satisfaction with family housing, minimal waiting lists, the continuous enhancement and preservation of the housing assets over the life of the project, the mitigation of project risk, and the successful completion of the housing development scope of work.”¹⁸⁶ After PAM was successfully implemented at Forts Hood, Meade, and Lewis, Deputy Assistant Secretary for Privatization and Partnerships William Armbruster, in March 2003, approved implementation of the program “at all Army installations throughout the U.S. scheduled to undergo privatization of housing by 2007.”¹⁸⁷

In many ways, PAM sanctioned processes and techniques that were already in place in the pilots. When a developer was selected, the developer and the Army would form a limited liability company or limited partnership. A Board of Directors or Major Decisions Committee, consisting of the installation’s garrison commander and representatives from the developer, would run the firm. Each project would also have an RCI Asset Manager located on the installation, who would regularly interface with the partner. According to the PAM

process, most of the Army's day-to-day oversight would be conducted by the garrison commander, but "Major Decisions" (defined as "specific strategic decisions requir[ing] consent of the Project's owners") had to go to an RCI Portfolio Manager (assigned to each installation by the RCI Program Office in Washington, D.C.) and the Deputy ASA for Privatization and Partnerships for approval.¹⁸⁸

The RCI Portfolio Manager had various oversight duties. According to Clark, the portfolio manager was responsible for securing the project's long-term success. The manager did not get involved in day-to-day details of an RCI project but did oversee the financial health of a project through monthly and quarterly PAM reports generated by the installations. Portfolio managers also had "information and network resources to spread success stories, techniques, approaches and solutions from one project to another as well as to higher echelons of Army leadership."¹⁸⁹ According to Mack Quinney, project director of Fort Hood Family Housing, the portfolio manager conducted an annual site visit to "look at the grounds, look at the production of construction and quality of homes and ... review our operations." The portfolio manager also served as the installation's point of contact for RCI.¹⁹⁰

To ensure project success, the portfolio manager could utilize specific PAM tools. These included a legal compliance checklist and ground lease inspection process; monthly, quarterly, semi-annual, and annual accounting and financial reports; transition planning and coordination with the RCI Asset Manager; annual project visits; special-purpose reviews to resolve potentially problematic issues; Army RCI training and professional development to ensure that project members had sufficient skill in and knowledge of PAM procedures; document management, as directed

by the USACE Norfolk District Real Estate Office; and other tools, such as annual resident surveys, to measure how satisfied soldiers were with privatized housing. By establishing the use of these tools, Clark and the RCI Program Office hoped to receive "early indications of project or portfolio issues."¹⁹¹ Don Spigelmyer, former head of RCI, commented that, "The private sector's role is to make a profit and the government's role is to spend taxpayer's money wisely and this [the PAM program] accomplishes both objectives. In the words of President Ronald Reagan, 'Trust but verify.'"¹⁹²

CONCLUSION

The three RCI pilot projects provided many lessons from which other installations could learn. The pilots also gave the RCI Program Office in Washington, D.C., needed experience. A 2002 report concluded, "Army civilians in the RCI Office are gaining knowledge from lessons learned in the pilot projects and are developing best practices and skill sets that will be used in the follow-on projects."¹⁹³ The most striking example of this was the development of the PAM program, which was created through the combined efforts of Sandy Clark and the JLL consulting team. Clark and JLL continually refined their ideas as they visited the pilot projects, including the pilot at Fort Carson, and saw how they were being managed—and especially as they noted that each pilot managed the program a little differently. "We had four different projects with four very similar but yet different oversight approaches," Clark remembered. He concluded that "At the end of the day, we cannot have 35 projects with 35 different, yet somewhat similar, oversight [practices]."¹⁹⁴ Implementing PAM procedures at the pilots made it possible for "the program [to be] more successful when it offers value-added support, minimizes duplication of effort and

redundant reporting, and does not encroach on the partner's responsibility and authority to manage the project on a day-to-day basis."¹⁹⁵

Perhaps the most significant lesson that all four pilots taught was the need for an installation's RCI office to maintain a good working relationship with the partner. Forts Hood and Carson had a good relationship, and RCI proceeded relatively smoothly there. The relationship was not as good at either Fort Lewis or Fort Meade, and their RCI programs suffered accordingly. Both of those pilots indicated that it was difficult for either side to acclimate to the culture of the other, even though the importance of doing so as quickly as possible, and of ensuring that each side was really committed to the partnership idea, was crucial.

Even when the transition was going relatively smoothly, unexpected problems could arise. Fort Carson faced the bankruptcy of the partner's parent company, Fort Hood dealt with school district issues, Fort Lewis experienced a lawsuit, and Fort Meade faced low occupancy rates in its initial years. Other sources of pressure included the need to provide for historic homes and their maintenance; environmental issues such as methane gas, chlordane, or mold; educating residents about privatization and getting them to accept and trust the developer; downsizing installation housing offices because of privatization; and the "have" and "have-not" syndrome, as some families were moved into new houses while others were not. Fortunately, the hard work of both the Army and the partners resulted in satisfactory outcomes. As other installations implemented RCI, they too could expect to face both similar and unique problems along the way.

Each installation also had experiences that highlighted the flexibility of the RCI program and the ways in which flexibility could benefit military

families. Fort Lewis's implementation of modular housing as a way to fit more houses into its budget while still providing quality homes was one of the most striking examples of this flexibility, as was Picerne's proposal to construct neighborhood centers at Fort Meade to benefit residents and enhance a neighborhood's community feeling. Such flexibility was not possible before privatization. That, of course, was one of the main reasons for RCI.

Most significantly, the pilots demonstrated the ability of installations to dramatically improve the quality of life of its families. As residents moved into new and renovated homes, the vast majority expressed joy and amazement at the places they now called home, and that reaction made all of the hard work worth it. Bill Mulvey of Picerne Military Housing commented, "The most rewarding [part of RCI] is seeing the smile on the families' [faces]."¹⁹⁶ Pat Mikita, housing manager at Fort Carson, observed, "Some people had never had this ... nice of a house before in their life," and that "made you feel proud."¹⁹⁷ Using the lessons of the pilots, the Army turned its focus to its other installations, hoping to have the same privatization success with them that it had achieved at Forts Carson, Hood, Lewis, and Meade.

ENDNOTES TO CHAPTER 6

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3. Dean Stefanides, telephone communication with Paul Sadin, 1 February 2011.
4. Quoted in “Installations as Flagships,” *The Army Engineer* (September/October 2004): 35.
5. U.S. Army, “Installation Management Agency History,” <http://www.ima.army.mil/sites/about/history.asp>.
6. Geoffrey G. Prosch, “Army Installations: Supporting the War and Transforming,” *Army* (March 2005): 41; and William Baldwin personal communication with Matthew Godfrey, 25 March 2009.
7. The parent company of the developer went bankrupt, causing a sell-off of assets, one of which was the Carson project.
8. Pat Mikita, Dean Quaranta, and Harrison Cole interview by Matthew Godfrey and Paul Sadin, 4 June 2007, Fort Carson, Colo., Transcript, 19-20; and Dru Brenner-Beck, MAJ, JA, Chief, Administrative & Civil Law, Memorandum for Record—Attorney Client Privilege, 28 February 2001, Documentum database, RCI Office.
9. Russ Hamilton interview by Matthew Godfrey, 5 June 2007, Fort Carson, Colo., Transcript, 10.
10. Hamilton interview, 10.
11. Hamilton interview, 10.
12. Quoted in Assistant Secretary of the Army for Installations & Environment, RCI Office, “RCI Primer: An Introduction to the RCI Program,” 7, document provided by RCI Office. See also Mikita, Quaranta, and Cole interview, 25.
13. “MHPI Program Evaluation Plan (PEP), Fort Carson Project Summary Report, Period Ending: 30 June 2001,” ii, document provided by Dean Quaranta, Fort Carson, Colo.
14. Ron Hansen telephone interview by Paul Sadin, 11 April 2008, Seattle, Wash., Transcript, 11.
15. Jerry Stafford interview by Paul Sadin, 5 June 2007, Fort Carson, Colo., Transcript, 12.
16. Don Spigelmyer, telephone communication with Paul Sadin, 1 February 2011.
17. “MHPI Program Evaluation Plan (PEP), Fort Carson Project Summary Report, Period Ending: 31 December 2002,” ii, document provided by Dean Quaranta, Fort Carson, Colo.
18. “Statement of Mr. Philip W. Grone, Principal Assistant Deputy Under Secretary of Defense (Installations and Environment), Before the Subcommittee on Military Construction of the House Appropriations Committee,” 3 March 2004, www.acq.osd.mil/housing/cto4_grone.htm. See also “MHPI Program Evaluation Plan (PEP), Fort Carson, Project Summary Report, Period Ended: 31 December 2003,” 1, 6, document provided by Dean Quaranta, Fort Carson, Colo.; and “Army Announces New Residential Communities Initiative Partner at Forts Carson, Story, and Eustis,” U.S. Army News Release, Army Public Affairs, 5 December 2003, http://www4.army.mil/ocpa/print.php?story_id_key=5473.
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22. Dean Stefanides, written comments to authors, 3 February 2011.
23. “MHPI Program Evaluation Plan (PEP), Fort Carson Project Summary Report, Period Ending: 30 June 2001,” iii. See also Mikita, Quaranta, and Cole interview, 26; “MHPI Program Evaluation Plan (PEP), Fort Carson, Project Summary Report, Period: December 2005,” 2; and “Army Leadership Notes, as of 9 April 2007,” document provided by William Baldwin, USACE Office of History.
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25. Stefanides comments, 3 February 2011.
26. Rhonda Hayes, written comments to authors, 13 February 2011.
27. Hayes comments, 13 February 2011.
28. Ted Lipham, RCI Program Director, “Residential Communities Initiative (RCI), Fort Hood CDMP Pre-brief for DA/OSD/OMB Meeting,” PowerPoint, 2 April 2001, 5, document provided by Dean Stefanides.
29. Office of Management and Budget, “Ft. Hood CDMP Review & Approval Process,” 7 February 2001, 1, document provided by Dean Stefanides.
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31. James T. Lipham, RCI Program Director, to Director, Competitive Sourcing and Privatization, memorandum, 14 March 2001, 1, document provided by Dean Stefanides.
32. Per Stefanides’ comments, 3 February 2011, the Fort Hood and FORSCOM Commanding Generals approved the CDMP on 17 January 2001. Congress approved the Fort Hood CDMP on 31 May 2001.
33. U.S. Army Audit Agency, “Privatization of Family Housing Fort Lewis, Washington,” 29 November 2002, Audit Report: A-2003-064-IMO, 9, Folder: Army Installations—Hood, Lewis, Meade, Subfolder: Fort Lewis, Share Drive database, RCI Office. According to one individual, the color of the housing was based on “the condition of major components (i.e., the site and grounds, building exterior, interior workspace, bathrooms, utilities, kitchens, and laundry rooms).” If a unit was inadequate, it meant that it “require[d] a major repair, component upgrade, component replacement, or total upgrade.” Larry W. Wright email to Rhonda Hayes, 30 August 2001, Folder: ISR-Facility Issues, Share Drive database, RCI Office.
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35. Fort Hood Family Housing LP, “Executive Summary: Community Development and Management Plan, Residential Communities Initiative, Fort Hood, Texas,” ca. 2001, 4, 11, Folder: Hood, Lewis, Meade, Subfolder: Fort Hood, Share Drive database, RCI Office. See also Michelynn Carellas, “Information Paper, SAIE-RCI, November 25, 2003, Subject: Fort Hood Residential Communities Initiative (RCI) Privatization Project,” Folder: Hood, Lewis, Meade, Subfolder: Fort Hood, Share Drive database, RCI Office.
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38. Fort Hood Family Housing LP, “Executive Summary: Community Development and Management Plan,” 7.
39. Ian “Sandy” Clark, “Information Paper, SAIE-RCI, November 5, 2001, Subject: Fort Hood Residential Communities Initiative (RCI) Project, Folder: Hood, Lewis, Meade, Subfolder: Fort Hood, Share Drive database, RCI Office.
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44. Robert Erwin interview by Leigh Cutler, 19 September 2007, Fort Hood, Tex., Transcript, 4.
45. Anderson and Nix interview, 7; and U.S. Army Audit Agency, “Privatization of Family Housing: Fort Hood, Texas,” 10.
46. Erwin interview, 4.
47. Marvin Williams interview by Leigh Cutler, 19 September 2007, Fort Hood, Tex., Transcript, 5-6.
48. Erwin interview, 9.
49. Barbara Sincere interview by Leigh Cutler, 17 July 2007, Crystal City, Va., Transcript, 9.
50. Mack Quinney and Jim Switzer interview by Leigh Cutler, 19 September 2007, Fort Hood, Tex., Transcript, 12.
51. Erwin interview, 4.
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55. Actus Lend Lease, “Spotlight on the Community,” *Hood Highlights* 2 (March 2005): 2.
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65. Louis Bain telephone interview by Paul Sadin, 4 December 2007, Seattle, Wash., Transcript, 17-18.
66. Rhonda Hayes, written comments to authors, 2 February 2011.
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68. Erwin interview, 11.
69. Barbara Sincere, “Information Paper, SAIE-RCI, 30 June 2006, Subject: Fort Hood Family Housing, LP,” Folder: Hood, Lewis, Meade, Subfolder: Fort Hood, Share Drive database, RCI Office. See also Michelynn Carellas, “Information Paper, SAIE-RCI, November 25, 2003, Subject: Fort Hood Residential Communities Initiative (RCI) Privatization Project,” Folder: Hood, Lewis, Meade, Subfolder: Fort Hood, Share Drive database, RCI Office.
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84. Bain interview, 12. See also U.S. Army Audit Agency, “Privatization of Family Housing,” 9.
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FIGURE 7-1. The Campbell Crossing project at Fort Campbell, Ky.

Courtesy of Lend Lease.



CHAPTER SEVEN

Consolidating the RCI Program, 2002–2005

When the U.S. Army designated four pilot projects for housing privatization, it chose carefully, ensuring that they were installations with the best prospects of achieving financial stability and garnering strong political support. The Army's success with the pilot projects boosted support for the Residential Communities Initiative (RCI) program and provided Army staff and developers with a wealth of experience and lessons learned. As the Army moved to privatize a greater number and a more diverse group of installations from 2002 through 2005, new issues and challenges came to light, particularly at installations that varied the most from a "typical" Army base model. Army RCI personnel and developers set out to blaze new privatization paths that included development of family housing at isolated locations such as Fort Irwin, California, creation of dual-service housing projects at installations such as the Presidio of Monterey, and initiation of RCI projects that combined multiple

small installations with limited housing stocks. Other new privatization efforts during this period were precedent-setting because of unique project characteristics, such as the hundreds of historic homes to be renovated at Fort Sam Houston and the inclusion of a town center at Fort Belvoir.

ACCELERATING THE PROGRAM

At the same time that RCI anticipated privatizing installations beyond the pilot projects, it faced leadership changes. On July 1, 2002, Ted Lipham retired from his post as RCI Director and Don Spigelmyer, who had been serving as Lipham's deputy director, became acting director, keeping that title until the Army appointed him senior executive director of RCI in February 2003.¹ Assisting Spigelmyer in his duties was Rhonda Hayes, Deputy Director of RCI. Hayes had previously worked in several positions within Army housing at the installation level, including as housing division chief at both Darmstadt,



FIGURE 7-2. Construction work at a new Army family housing neighborhood in Hawaii.

Courtesy of Lend Lease.

Germany, and Fort Meade. She had worked as a program manager in the RCI office of the Assistant Secretary of the Army, Installations and Environment (ASA, I&E) since 1999, overseeing source selection and interfacing with the U.S. Army Corps of Engineers (USACE) RCI procurement, real estate, and environmental teams. Her responsibilities as deputy director included “strategic planning, project scheduling, and overall RCI program execution,” including transaction management.² Upon completion of her duties on the Fort Meade Source Selection Evaluation Board (SSEB), Hayes realized that no milestones were in place to guide future installations through the RCI process. Accordingly, she developed the “RCI Timeline,” which she had originally intended to be an internal planning document. Subsequently,

however, it expanded in scope to become “the drumbeat of the program.”³ The timeline, updated quarterly, identified the dates when the Army would issue solicitations, award projects, assign the Basic Allowance for Housing (BAH) funding, and require the operational funding for due diligence, real estate, and environmental studies. The timeline also ensured that the fiscal year of transfer would match the fiscal year of Army equity contributions. Hayes made certain that all participants were accountable to her for meeting the established milestones and, as a result, very few were missed during the remaining years of the program. In fact, the Army was the only one of the services to meet the Office of the Secretary of Defense (OSD) goal of completing its housing privatization program by 2010.⁴

Assistant Secretary Mario Fiori was formally in charge of RCI from August 2001 until his retirement in December 2003. After Fiori retired, his position remained vacant until August 2005, when the U.S. Senate confirmed Keith Eastin as the new Assistant Secretary of the Army. Eastin had both a legal and business background and had previously served as Principal Deputy Assistant Secretary of the Navy and as Deputy Undersecretary of the U.S. Department of the Interior. Eastin’s forte was environmental law and leadership and, like Assistant Secretary Fiori before him, he did not involve himself as closely with the RCI program as Sandy Apgar had done. He left most of the program’s oversight to Deputy Assistant Secretary of the Army for Privatizations and Partnerships William Armbruster. Both Fiori and Eastin recruited key allies, such as General Jack Keane, who worked with Fiori to garner strong support for the RCI program from the Army leadership.

General Keane, Vice Chief of Staff of the Army from 1999 to 2003, was a key booster of the entire privatization effort. Ted Lipham recalled that soon after Apgar departed, Keane pulled him aside and said, “I know Sandy’s gone so if you need any help, all you’ve got to do is call me on this program.”⁵ Keane, who referred to himself as a “champion” of RCI, was committed “to help see it [RCI] through ... I took that on as one of my top priority tasks as the Vice Chief.” He secured support for RCI that went several administrative layers deep, as he got Major Army Command (MACOM) commanders, the U.S. Army Forces Command (FORSCOM) commander, and Chief of Staff of the Army General Eric Shinseki “lined up behind it.”⁶

Support from senior Army leaders, in combination with some early successes in the pilot projects, put the program as a whole on a solid footing. With the pilots largely succeeding and



FIGURE 7-3. Rhonda Hayes, Deputy Director of RCI and later Director of Capital Ventures (ASA, IE&E).

Courtesy of Rhonda Hayes.

with administrative program aids such as the RCI Timeline and Portfolio and Asset Management (PAM) in place, RCI had the necessary structure to quicken its pace. When Apgar left office, the original plan was to privatize four installations in FY 2002: Fort Bragg in North Carolina, Fort Stewart in Georgia, Fort Campbell in Kentucky, and the Presidio of Monterey in California. However, Army leadership was so impressed with the RCI pilots that they wanted to see the same kind of housing construction and management at other installations. At a January 2001 meeting of the Integrated Process Team (IPT), co-chair and FORSCOM Commander General John Hendrix proposed a “much more aggressive RCI program ... [and] urged Army to submit a proposal this year to convince Congress

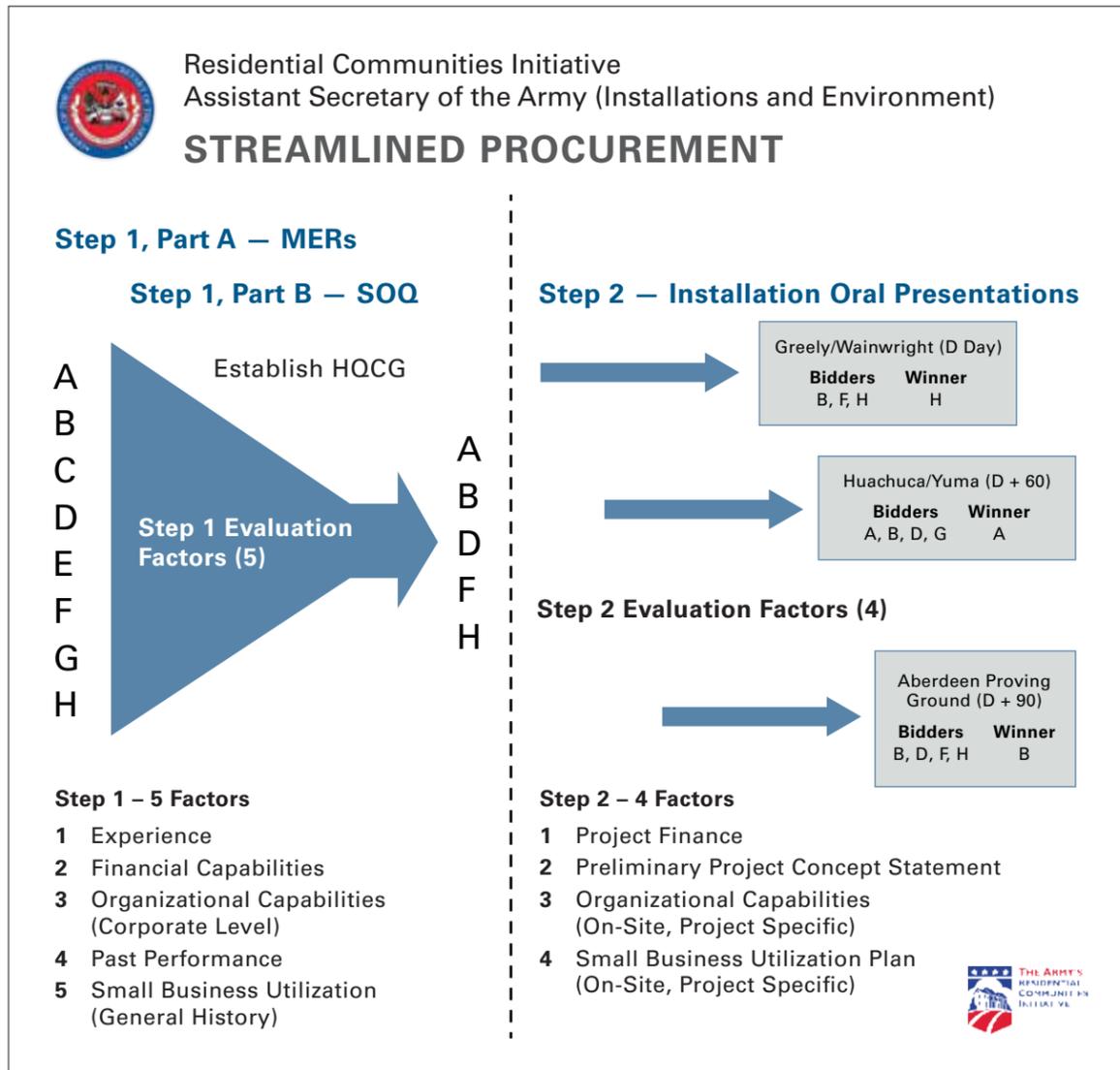


FIGURE 7-4. A summary of the two-step RFQ process.
Courtesy of RCI Office.

to: (1) lift existing constraints and allow more projects, (2) fund additional projects, and (3) start development of RCI for all FORSCOM installations.”⁷ General Keane agreed that the privatization program should become more aggressive in selecting sites and procuring private partners, although the Army, the OSD, and Congress first had to agree to the accelerated program.

The Army succeeded in accelerating RCI by streamlining the Request for Qualifications (RFQ) process that it used to solicit proposals for RCI projects. Although the RCI Program Office had developed a workable RFQ for the pilot projects, RCI leaders looked for ways to make the RFQ even less onerous for both developers and Army review boards. After serving on three successive SSEBs,

Rhonda Hayes determined that it was unnecessary to re-evaluate the factors pertaining to experience, financial capability, and organizational capability during the relatively short period of time between proposal reviews. Accordingly, the RCI Program Office developed a two-step process for bidders to follow. In the first step, developers submitted a list of previous projects they had conducted in order to demonstrate their minimum experience requirements (MERs) in the realms of housing development, property management, and capital formation. If a company failed to meet or clearly demonstrate the minimum requirements, the selection board culled the company from the group of offerors, while the other firms (usually the large majority) were considered to have “prequalified.” In Step One, Part B, the offerors had to submit a statement of qualifications regarding their “experience, financial capabilities, organizational capabilities, past performance,” and their history of utilizing small businesses as subcontractors. Based on these statements, the SSEB, in Step Two, would decide which offerors would constitute the more selective “Highly Qualified Competitive Group.” This process helped the Army identify firms that showed the most potential to become effective long-term business partners.⁸

During Step Two, the companies in the “Highly Qualified Competitive Group” had the opportunity to make oral presentations detailing their privatized housing vision for the projects/installations with which they wanted to partner. At a minimum, the Army wanted these presentations to include discussions of a company’s “project finance, preliminary project concept statement, organizational capabilities (on-site, project specific), [and] small business utilization plan.”⁹ After the SSEB evaluated the presentations and provided its findings to the Source Selection Advisory Council (SSAC), the

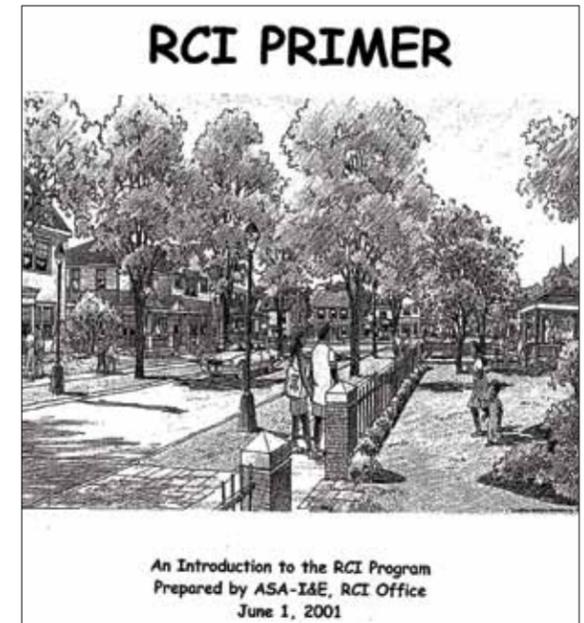


FIGURE 7-5. The cover of the RCI Primer, issued in 2001.
Courtesy of RCI Office.

SSAC would validate the findings of the SSEB and forward its report to the Source Selection Authority (SSA), who then selected the most qualified developer as the partner.

In addition to creating the two-step process, the RCI Program Office began issuing RFQs that allowed bidders, during Step 1 of the solicitation, to make offers on a group of projects/installations, rather than bidding on one project at a time. Prospective developers and property managers could respond to the call for minimum requirements in an RFQ without specifying which of the projects they hoped to win. This allowed contractors to save time and money in their bid preparation because they could prepare one response for several projects. If developers made it to Step Two, then they had to specify the project on which they planned to bid and prepare a more detailed response tailored to the specific installation(s). RCI officials hoped that this would “encourage

industry participation and maximum competition” for Army privatization projects.¹⁰

The RCI Program Office also developed a more aggressive approach to privatization projects by creating uniform guidelines for establishing new RCI offices at installations and by training personnel at those posts about the Community Development and Management Plan (CDMP) process. Drawing on lessons learned from the pilots, Rhonda Hayes developed the guidelines in 2001 and issued them in the form of an “RCI Primer.” The primer emphasized that new or incoming RCI staff could achieve the best results if they communicated with and visited established RCI offices at other installations, selected an office location that was easily accessible to soldiers’ families, obtained sufficient space for the partner to operate out of the same building, and allocated an adequate number of staff (15 was suggested) to run RCI through the CDMP phase. Moreover, the Army should select as the RCI Program Manager “a strategic thinker who is motivated, mission-oriented, and capable of providing purpose, direction, and motivation to others who may not be totally sold on the project.”¹¹

The guidelines also suggested that new RCI staff should receive training in how the private sector managed and developed real estate, in order to work effectively with the private partner during the CDMP and initial development period.¹² Early in his term as acting director of RCI, Spigelmyer assigned new RCI staff to attend a three-week Military Family Housing Privatization class at the University of Maryland, set up by the OSD. The university was a close partner with the U.S. Department of Defense (DOD) in privatization training, eventually offering a master’s degree in real estate development that focused on privatization programs.¹³ Spigelmyer also had RCI personnel take advantage of financial certification courses offered by the National

Development Council that focused on community and residential development. Topics of these courses included Housing Development Finance: Problem Solving and Deal Structuring, Real Estate Finance, and Computer Spreadsheet Analysis for Housing.¹⁴ In addition to these formal training programs, Spigelmyer and his staff developed an “RCI Program Overview” PowerPoint presentation that was used to orient new RCI team members to the program. This PowerPoint presentation included information on the background of RCI, the RFQ process, and examples of project successes.¹⁵

Because of these programs, Spigelmyer observed, “We were able to increase training and provide greater assistance to the field RCI elements.”¹⁶ According to Patrick Kelly, who became the RCI Program Manager at the Presidio of Monterey, these training programs were essential, especially since installation staffs would be dealing with partners who had strong business and financial backgrounds. “If you’re going to be enlisted in this,” Kelly explained, “you need to have some training in order to be able to successfully negotiate” with the partner.¹⁷ Spigelmyer and Michael McCarley, Financial Manager for the RCI program, agreed. “Privatization [requires] a totally different shift as far as what [housing personnel] at the installation do,” they explained. “They are no longer housing managers; they’re asset managers.” RCI on-site staff therefore required training in finance, monitoring budgets, and legal agreements, among other things, to supervise the RCI process effectively.¹⁸

Spigelmyer, other Army officials, and their Jones Lang LaSalle (JLL) consultants also looked for ways to standardize the RCI process in order to increase efficiencies. Their efforts included developing a standard ground lease (first tested at Fort Benning, Georgia, then implemented in 2006), consolidating and clarifying all RCI policies, and



FIGURE 7-6. Completing construction of a new home in the Doe Park development at the Presidio of Monterey, Calif.

Courtesy of RCI Office.

creating Standard Operating Procedures (SOPs) for various aspects of RCI, such as PAM. The RCI Program Office set “the process, deliverables, roles and responsibilities required of Portfolio and Asset managers,” including, for example, what kinds of training managers needed to have, when and how audits and project visits would occur, and what reports needed to be provided, as well as how. “The SOP tools and processes,” Armbruster reported, “will assist HQDA [Headquarters, Department of the Army] in assessing the health of its housing portfolio, while facilitating problem solving and support to the Asset Managers.”¹⁹

In addition, the Office of the ASA, I&E issued construction standards for RCI housing to ensure that installations received quality new housing and renovations that fit the needs of soldiers and their families. In November 2000, the IPT had issued a set of general construction guidelines, stating that RCI would follow the standards of the local area, although developers could recommend other standards during preparation of the CDMP. In

November 2002, Assistant Secretary Fiori noted that revised construction standards were necessary, in part so that the Army could “ensure delivery of an equitable housing product at all RCI sites.” To meet the demands of the modern family in the United States, these standards had extensive details about site and grounds; building exterior and foundation; building interior; living, family, and dining rooms; bathrooms, kitchens, and bedrooms; utility systems; laundry rooms; and closets. Under “site” and “grounds,” for example, the standards stated that each unit needed “two off-street, paved parking spaces of no less than 9 feet in width and 20 feet in length.” Under bathrooms, it required “a minimum of two full bathrooms ... for each dwelling unit.” Kitchens had to have “design considerations” that “incorporated an efficient work triangle,” while bedrooms had to have closets at least 24 inches deep. “These standards are applicable to all new or replacement family housing constructed under the Army’s RCI,” the Assistant Secretary declared, and would be “reviewed and updated annually.”²⁰

Another important step in preparing RCI to accelerate the privatization schedule was to establish a template for CDMP development. Based on the experiences of the pilot projects, the Army established standard guidelines for CDMPs to delineate “the developer’s long-term relationship with the Army.” The revised CDMP consisted of three primary pieces: the Development Plan, the Financial Plan and Transactional Instruments, and the Operations, Maintenance, and Property Management Plan. Installation staff and the private partner, assisted by an RCI Program Office representative and real estate and financial advisor JLL, would collaborate to create the plan. Based on the pilot projects, CDMP development was expected to take approximately six months. It would then go for approval to the Department of the Army, the OSD, the Office of Management and Budget (OMB), and finally to Congress. Once Congress had authorized the project plan, the Army would pay \$350,000 to the private partner for its CDMP work, in exchange for which the Army would obtain “full and unlimited rights” to the document.²¹ Project implementation would usually commence three months later, when the government transferred the housing assets and operation to the Army/private industry partnership.²²

Standardization of RCI projects was also extended to environmental sustainability. The “greening” of the construction industry had been moving forward in the United States since the late 1990s. In 2000, an organization of architects and others within the construction industry known as the U.S. Green Building Council had unveiled environmentally friendly standards for large commercial construction. The council also began to rate construction projects as part of its Leadership in Energy and Environmental Design (LEED)

program, which provided silver, gold, or platinum ratings based on various environmental factors.

The RCI program followed these “greening” trends, developing an overall philosophy of sustainability that came from the Assistant Secretary of the Army for Installations and Environment’s Sustainable Design and Development policy for all Army construction, first issued in November 2003. As part of this policy, the RCI Program Office required 100 percent of its new homes to be EnergyStar compliant, meaning that they used good insulation and had energy efficient windows, appliances, and lighting to reduce the amount of energy that a home used. It also mandated that every new home have earned a gold rating in the Sustainable Project Rating Tool (SPiRiT) measurement.²³ SPiRiT was a measuring device used by the Army to ensure that its facilities were “sustainable, cost-effective, [and] environmentally friendly.” A gold rating meant that a building was meeting those goals.²⁴ Because of the SPiRiT system, according to Casey Nolan, project director for Clark Realty at Fort Belvoir, the Army was ahead of other military services in its promotion of sustainability in residential housing.²⁵

As RCI’s acting director and senior executive director, Don Spigelmyer was a major advocate of sustainability and environmental protection. He established sustainability seminars and sessions at the Professional Housing Management Association’s (PHMA) worldwide conferences and spoke frequently at international, national, and local conferences on the RCI program’s efforts in these areas. He encouraged the RCI staff and the development partners to come up with new and creative ideas on sustainability, and they delivered. He wanted the Army to be a leader in creating sustainable communities and housing design, and the Army achieved that during his years as director.²⁶

Installation partners and the Army explored innovative ways to achieve the environmental standards. In Hawaii, for example, the Army partnered with Actus Lend Lease in August 2003 to build 5,388 new homes and renovate 2,506 homes at Fort Shafter/Schofield Barracks. As part of the CDMP, Actus proposed “integrating renewable energy sources and sustainable design solutions” to “create a greener environment and a better quality of life for more than 20,000 soldiers and their families.” In addition, Actus recycled hard demolition waste into asphalt and building materials and, before disposing of used appliances and other items from demolished homes in landfills, offered them to community and family aid organizations. The Army estimated that these operations prevented approximately one million tons of waste from entering landfills. Because of these efforts, Actus and the Army received the Crystal Hibiscus Corporate Award in 2005 from The Outdoor Circle, an environmental organization in Hawaii.²⁷

Hawaii was not the only place where RCI embraced sustainability. At Fort Hood, Actus Lend Lease “recycle[d] entire homes instead of demolishing them,” thereby “prevent[ing] 4,000 tons of waste from entering area landfills.” GMH Military Housing, meanwhile, filled the landscapes of its RCI projects with native plants, vegetation that could survive without irrigation. Picerne Military Housing recycled concrete and asphalt in its construction of new driveways and temporary access roads, while also using parts and other features from old homes in its renovations and maintenance of existing homes. Finally, Clark Realty Builders landscaped its homes in Fort Irwin, California, “to embrace the sun and to minimize water use,” in accordance with the desert climate of the installation.²⁸

However, although Army leaders regarded sustainability requirements, construction standards,

and other procedures as essential to enhancing efficiency, others saw them as stifling. Was not specifying the number of bedrooms, the depth of closets, and the size of parking spaces, they asked, akin to the rigid parameters and specifications the Army used in traditional military construction? Did not RCI have the goal to get away from such rigid standards? Russ Hamilton, an attorney with the Office of Staff Judge Advocate at Fort Carson, noted that increasing standardization suppressed “some of the benefits we might have accrued ... if we had given more latitude to the developers.”²⁹ Others disagreed, claiming that creating standards was merely a way of ensuring that soldiers and their families had comfortable and modern housing at a relatively consistent level across all RCI projects. They also argued that private developers had a great deal of latitude to work within these standards, pointing to some of the sustainability features that developers implemented according to the unique needs of the installation.

As Army leaders continued to standardize processes, the RCI Program Office expanded the number of installations designated for privatization in Fiscal Year (FY) 2002. In the fall of 2001, the Army issued three RFQs for three different regional groups. The Southeast Group consisted of Fort Bragg (North Carolina), Fort Campbell (Kentucky), Fort Stewart and Hunter Army Airfield (Georgia), and Fort Polk (Louisiana). The California group was comprised of Fort Irwin, Moffett Federal Airfield, Parks Reserve Forces Training Area (RFTA), and the Presidio of Monterey. The Northeast Group consisted of Fort Hamilton (New York), Walter Reed Army Medical Center (Washington, D.C.), Fort Detrick (Maryland), and Picatinny Arsenal (New Jersey).³⁰ As the Army had hoped, the use of the two-step RFQ process and the geographic

groupings prompted a strong response from private companies interested in partnering. Sixteen firms submitted offers for the Southeast Group RFQ, while 22 companies bid on the California

Group RFQ. Because of the high response, selecting the partner became more difficult in some ways, as proposals were increasingly sophisticated and on target.³¹



Integrated Limited Liability Companies (LLCs)

As the program continued to grow, RCI staff and JLL consultants advanced the financing of housing projects of greater utility and complexity. The MHPI Act allowed the military services to make contributions to defray the cost of projects, as long as the contributions did not exceed a designated percentage of the total cost of a project. The contribution thresholds became known as the “33 percent rule” and the “45 percent rule.”³² As the name suggests, the 33 percent rule required that government cash contributions to RCI projects not amount to more than 33 percent of the overall development cost of a project. Likewise, the 45 percent rule required the cash contributions to RCI projects to stay below “a ceiling of 45 percent plus the value of the conveyed assets when compared to the overall scope of the project.”³³

In order to meet the 33 percent and 45 percent threshold requirements, the RCI program employed the strategy of combining installation projects, either before privatization took place or, as needed, post-privatization, when preexistent projects would be combined with new projects. The combination led to the use of the term “Integrated Limited Liability Companies (LLCs)” to denote projects that were combined in order to meet threshold requirements. Unlike RCI projects that merged installations into a single project—for example, the RCI project encompassing housing at Fort Detrick and Walter Reed Army Medical Center—an Integrated LLC did

not share project resources, liabilities, or project governance. The Integrated LLC structure created a link between projects solely in order to have their combined value assessed and thus enable them to meet the required threshold levels. This Integrated LLC structure would also facilitate movement of reinvestment account assets between the projects if the Army deemed this necessary during the projects’ out-year development periods.³⁴

At Fort Sill, the Army proposed the establishment of the Picerne Military Housing Integrated LLC that included the Fort Sill and the Fort Meade housing privatization projects. Operating in a way that was similar in effect to combining installation projects to gain efficiencies at project closing, the Picerne Military Housing Integrated LLC created potential benefits by integrating these two projects for purposes of the projects’ “out-years,” or secondary development periods.

The integrated structure also helped when project investment involved land and facilities, since the total value of the investment could not exceed 45 percent of the total capital cost of the project or projects. Moreover, the government’s cash contribution had to be less than 33 percent of the total capital cost of the project or projects. The Picerne Military Housing Integrated LLC satisfied both the 33 percent and 45 percent limits as defined by Title X, Section 2875 requirements.³⁵

At the same time, the RCI Program Office felt the pressures of an accelerated program. Don Spigelmyer explained that as “the program grew exponentially ... it was impossible to stay in touch with all the details of the projects.” Spigelmyer was “used to having a firm grasp on every project and doing a lot of analytical work,” but as the director of RCI he could no longer afford to spend that kind of time on a single project. Although he trusted his staff to do much of the detail work, he had difficulty making sure that they had enough expertise to oversee effectively the RCI programs at the individual installations, even with the increased emphasis on and opportunities for training. Spigelmyer later reflected that this oversight deficit “hurt the program.”³⁶

The implementation of RCI at an increasing number of installations presented new problems for the program, problems that the pilot projects had not experienced. Several of the posts included in the 2001 RFQs, such as Walter Reed Army Medical Center, Picatinny Arsenal, Fort Detrick, and Fort Hamilton, were small installations, and the RCI program grappled with ways to make projects at these bases attractive to developers. The Army added these installations to the RCI program in response to a congressional request, as Congress wanted to determine whether the early RCI successes could be replicated at a small site.³⁷ In other cases, such as at the Presidio of Monterey, the Army worked with another service, the U.S. Navy, in its implementation of privatization. These two circumstances—small installations and the involvement of other services—forced RCI officials to become even more innovative in implementing the program.

At the same time, some of the problems that the Army faced at new RCI projects were similar to those experienced at the pilots, for example,

environmental issues and the inclusion of historic homes in privatization. To explain how the RCI program addressed these problems, the following section explores five different RCI projects as case studies: Fort Irwin/Moffett Airfield/Parks Reserve Forces Training Area in California; the Presidio of Monterey in California; Walter Reed Army Medical Center/Fort Detrick in the Washington, D.C./Maryland area; Fort Belvoir in Virginia; and Fort Sam Houston in Texas. Each installation’s story highlights the continued evolution of the RCI program in the first decade of the twenty-first century.

FORT IRWIN/MOFFETT AIRFIELD/PARKS RESERVE FORCES TRAINING AREA (CALIFORNIA)

Following the Congressional request to investigate how RCI would work at smaller installations, Army officials realized that some posts were not viable candidates for privatization by themselves, either because the housing stock was too small or the BAH income was too low to induce a private company to participate. The Army responded by clustering smaller installations together and issuing each cluster as a single RCI project. The solicitation for the California group of installations marked the first time that RCI introduced the strategy of combining several small bases into a single project. The California RFQ included four installations: Presidio of Monterey, Fort Irwin, Moffett Federal Airfield, and Parks Reserve Forces Training Area (RFTA). One of the installations, the Presidio of Monterey, became the first project to privatize housing for two services concurrently when the Naval Postgraduate School was included in the privatization project. The Army combined the other three installations into a single family housing project with one private developer/partner. Both projects were precedent-setting for the RCI program.



FIGURE 7-7. View to the Pacific Ocean from neighborhood at the Presidio of Monterey, Calif.

Courtesy of RCI Office.

Separately, Fort Irwin, Moffett, and Parks would have struggled to present financial packages strong enough to attract interest from outside developers. The housing stock at Moffett and Parks was too small, while Irwin's isolated desert location burdened it with low BAH rates and high numbers of married soldiers who had decided that their families should stay at their previous residence or live with relatives rather than move to such a remote outpost. However, the combined housing of the three installations created the economic scale necessary for a successful RCI project, while the high BAH rates at Moffett and Parks (due to their location in the San Francisco Bay area) helped "carry" the low BAH rates at Fort Irwin. To illustrate the contrast, at the time that the CDMP was completed, the \$2,622 BAH rate at Moffett represented more than three times the \$813 BAH rate at Irwin, and the \$2,007 BAH at Parks represented more than twice the Irwin rate.³⁸ But the total number of 2,616 homes at Irwin dwarfed the 316 homes at Moffett and the 114 homes at Parks.

In addition to the family housing project, during 2002 the Army received OSD approval to add 200 Senior Unaccompanied Housing (SUH)

apartments to the Fort Irwin project for Sergeants First Class (pay grade E-7) and above, apartments available to officers as well because there were no adequate accommodations off post within a reasonable commute. This initiative marked the start of the national RCI Office's plan to add Unaccompanied Personnel Housing (UPH) to the RCI program.³⁹ The Army's strategy for balancing the differences in its California family housing procurement, together with the other qualities that set these installations apart from the "typical" Army bases, made the combined project a test of how well the RCI program would respond to new issues not encountered in the earlier phases of Army privatization.

The California RFQ brought responses from 22 firms. Using the two-step RFQ process, the SSEB established which of the applicant firms were qualified to carry out the housing development at any or all of the installations. The Army would make two awards: one for the Presidio of Monterey and the other for the combination of Fort Irwin, Parks RFTA, and Moffett Federal Airfield. The SSA eventually chose Clark Pinnacle, one of three companies remaining in the competitive range, as the partner for both California projects. Clark Pinnacle was a joint venture between Pinnacle Realty Management Company, a national property management firm that had a portfolio of 110,000 apartments, and Clark Construction Company, a nationwide leader in residential as well as commercial construction. Although there was an obvious geographic link between them, Clark Pinnacle planned to develop and manage the Presidio of Monterey project separately from its operations at Irwin/Moffett/Parks, since they were two separate projects.⁴⁰

Each of the installations in the Irwin/Moffett/Parks project differed widely from those in earlier



FIGURE 7-8. Rendering of a new duplex unit proposed for Fort Irwin, Calif.

Courtesy of Clark Realty Capital.

RCI programs. Originally established in 1940 as the Mojave Anti-Aircraft Range, Fort Irwin was a large installation located in the Mojave Desert in San Bernardino County, California. The nearest town, Barstow, was almost 40 miles away and, before reaching that town, one encountered only desert and a historically dangerous strip of two-lane highway. It was a setting highly unusual for a U.S. military facility, in that there were no amenities of any kind immediately "outside the gate." Residents who needed anything—ranging from housing to a carton of milk—had to either settle for what was available on the installation or drive to Barstow or the nearest large city, Victorville, 72 miles away. Irwin's isolation tended to create a feeling of "hardship" among the spouses and families of soldiers assigned to the installation, leading some families to stay with relatives or remain at their home at a prior installation while the

uniformed members of families took up residence as unaccompanied personnel.⁴¹

Fort Irwin was also home to the National Training Center (NTC), a critical training site for all branches of the military. The NTC was essential to training in that it used force-on-force and live-fire scenarios that simulated combat situations.⁴² With the new needs generated by the increased ferocity of fighting and the growing U.S. participation in the Global War on Terrorism, Fort Irwin was an ideal practice site. Its desert surroundings were perfect for preparing troops to fight in the desert conditions of Iraq and Afghanistan.⁴³ However, the NTC's operations at Fort Irwin—which involved rapid deployments, quick housing turnover, and increased need for family support activities—complicated the picture for housing privatization. Soldiers were often assigned to two-week training periods during



FIGURE 7-9. View of new neighborhood under construction at Fort Irwin, Calif., with the bleak landscape of the Mojave Desert in the distance.

Courtesy of Clark Realty Capital.

their time home from deployment, so that even though they were home, they had no easy way to take part in community.⁴⁴

In stark contrast to Irwin, Moffett and Parks were small installations located in suburban areas of the San Francisco Bay area. Moffett Federal Airfield/Moffett Community Housing Area covered roughly 140 acres in nearby Silicon Valley, a computer/technology “boom” area in Santa Clara County, California. Prior to privatization, USACE held operational control over the installation, while the National Aeronautics and Space Administration (NASA) was the primary occupant of the airfield and its facilities. Moffett was a true “purple suit,” or joint, installation in that it was home to six different military tenants and many

more civilian organizations. In fact, the civilian employees (1,600) outnumbered the military staff (445) by almost four to one.⁴⁵ In 2001, the base housed 168 Army, 180 U.S. Air Force, 60 U.S. Navy, 43 U.S. Marines, and 25 U.S. Coast Guard families, in addition to 105 civilian families. Of the preexisting 620 family homes, 70 were already scheduled for demolition to create room for the construction of a new Army Reserve Center, a non-RCI undertaking.⁴⁶

Parks RFTA, formerly Camp Parks, the smallest of the three installations, was located in suburban Alameda County in San Francisco’s East Bay region. Camp Parks first opened in 1943 as a Navy construction facility. It was then transferred to the Air Force, which held jurisdiction

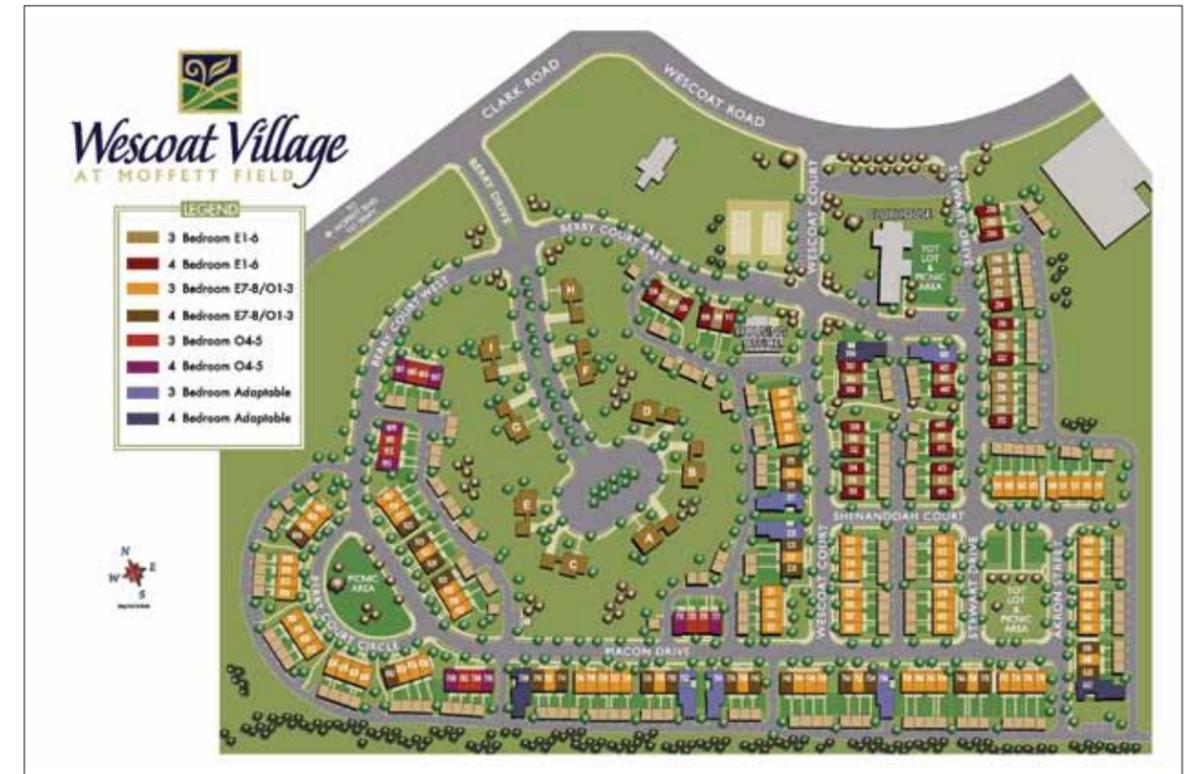


FIGURE 7-10. Site plan for neighborhood development at Moffett Field, Calif.

Courtesy of Clark Realty Capital.

over the base from 1951 to 1959. Camp Parks was a “sub-installation” for the Presidio of Monterey until December 1980, when it was redesignated Parks RFTA. The installation was home to the 91st Division Headquarters, the Western Army Reserve, the Intelligence Center, the 4th Brigade Headquarters, Company B of the 319th Signal Battalion, the Bay Area Training Support Center, and the California National Guard.⁴⁷ Prior to transfer, there were only 13 family homes, but the Army’s Housing Market Analysis (HMA) indicated a need for 114 homes. As at Moffett, Parks’ civilian employees outnumbered military service members, but only slightly.⁴⁸

In December 2002, the RCI team and Clark Pinnacle began CDMP development of the project

with an “intense” four-day planning charrette. In the course of the charrette, the diverse nature of the three bases, individually and in relation to each other, alerted the participants to the challenges they would face in creating a CDMP that could be successfully executed and closed.⁴⁹ By the end of the development process, the plans for each installation were similar, except for the way that they dealt with key and essential personnel and the waiting list waterfall.⁵⁰ But the problems encountered in the course of preparing the CDMP were far from minor, primarily due to property issues at both Moffett and Parks.

Although the original project scope called for spending nearly \$360 million on new housing construction and renovations, the CDMP preparation

team soon discovered that this amount of money would leave a deficit of 246 homes at Fort Irwin. In other words, the total housing allowance income from all three installations would not cover all of the new construction called for in the HMA. To solve this problem, the partners proposed selling a parcel of surplus land in the Orion Park neighborhood at Moffett and using the proceeds of this sale to finance the additional construction. This planned sale illustrated the flexibility that the Army gained from having multiple installations included in one RCI project.⁵¹

Yet the sale of the land did not proceed smoothly, endangering Clark Pinnacle's ability to address Irwin's housing deficit. The Army knew from earlier testing by the Navy that trichloroethylene (TCE), a toxic solvent used for degreasing engine parts, was present in the soil at Orion Park, but Army officials assumed that adequate environmental remediation had been completed. However, as CDMP preparation occurred, Clark Pinnacle's environmental consultant, the SI Group, conducted its own analysis and reported that "the TCE concentrations in ambient and indoor air exceed EPA [Environmental Protection Agency] Preliminary Remediation Goals."⁵² Because the parcel did not meet the EPA's standards (which would affect Clark Pinnacle's ability to sell the land) and because cleanup would be expensive, Clark Pinnacle insisted on the removal of the entire Orion Park neighborhood from the ground lease before the Army transferred the housing.⁵³ Transferring Orion Park in the future remained an option, but any action had to wait for adequate site cleanup.

Because of the Orion situation, Clark Pinnacle faced the prospect of a substantial funding shortfall just as it completed the CDMP in early 2003. To assess the severity of the shortfall, Sarah

White, the RCI program manager at the time, and Clark Pinnacle "scrubbed [the Army's] numbers on the Irwin project to determine if all of Orion is needed." They verified that "Irwin needs all of Orion Park in order to build out the 246 unit deficit." White concluded that without the sale of the Orion parcel, "the project would require scoring dollars in the amount of the loss of acreage."⁵⁴ The environmental issues thus prevented the Army from including Orion Park in the ground lease, and the partnership had to look elsewhere to make the project's finances work.

To address these financial problems, the partnership chose to revise downward the charette plan for new construction at Moffett. It would also dispose of 536 existing Moffett homes, thus eliminating the need to renovate them. The RCI team believed this alternative gave the project "the greatest probability of completing timely financial close of the CDMP."⁵⁵ However, the revised plan for Moffett significantly affected the project as a whole. Not only were just 181 new homes to be constructed at Moffett instead of the anticipated 307, but the final version of the CDMP had the partnership constructing only 715 new homes at Fort Irwin instead of the planned 1,506. Moreover, the time frame for the initial development period was extended from seven to eight years, during which time there would be no renovation of existing houses.⁵⁶ Whether Clark Pinnacle could construct and renovate the additional housing after the initial development period remained to be seen, but that was the partnership's hope.

Even while RCI and Clark Pinnacle staff tried to solve the Orion Park problem, another financial issue developed at Parks RFTA. In the spring of 2003, the tax assessor for Alameda County asserted the county's right to assess property tax on the Parks RCI development.



Clark Pinnacle Communities

Clark Pinnacle Family Communities oversees some of the highest-profile installations in the RCI program, including Fort Belvoir, Virginia, just outside the nation's capital. The company is a partnership between Clark Realty Capital, based in the Washington, D.C., area, and Pinnacle Property Management of Seattle. In collaboration with the Army, Clark Pinnacle has spearheaded development of four projects in six locations, totaling more than 11,000 homes at a value of \$2 billion.

In 2002, Clark Pinnacle won three RCI contracts in quick succession. It began with a project combining the Presidio of Monterey and the Naval Postgraduate School, both in Monterey Bay, California. Featuring 2,209 homes across the two sites, the project was the first joint-service MHPI project for the Army and Navy. In 2005, the project won a Multifamily Executive Grand Award for its wireless networking platform.

Shortly after winning its first bid, the company also began development at Fort Irwin/Moffett Federal Airfield/Parks Reserve Forces Training Area

(California), where it rose to the challenge of establishing communities in harsh environments. At Fort Irwin in the Mojave Desert, for example, Clark Pinnacle installed a cooling tower to counteract the desert heat and redesigned street plans around parks and neighborhood centers to make the community more pedestrian-friendly. Ultimately, the project included more than 1,000 new and renovated homes.

In 2004, the company started its largest development project at Fort Benning (Georgia). The project was customized to suit the needs of its residents, including features such as garage wash stations for muddy boots and combat gear and increased storage space to accommodate souvenirs and memorabilia collected on tours of duty. In total, the development consisted of nearly 4,000 new and renovated homes.

At Fort Belvoir, Clark Pinnacle took on its most prestigious project, consisting of 2,070 homes—including 1,180 new homes, 450 renovations, and 170 historic houses—all just south of Washington, D.C., on grounds where George Washington once



FIGURE 7-11. Clark Pinnacle's 1000th home completed at Fort Belvoir, Va.

Courtesy of Clark Realty Capital.



FIGURE 7-12. New home and residents at Moffett Federal Airfield, Calif.

Courtesy of Clark Realty Capital.



FIGURE 7-13. Ribbon-cutting ceremony at Fort Belvoir, Va.

Courtesy of Clark Realty Capital.



FIGURE 7-14. Swimming pool in resident common area at Fort Benning, Georgia.

Courtesy of Clark Realty Capital.

hunted foxes. Throughout the development process, which began in 2002, Clark Pinnacle worked closely with the Virginia State Historic Preservation Office to maintain the integrity of renovated homes. The company also utilized the design principles of New Urbanism by constructing multiple villages surrounding a walkable town center, with 25 homes nestled above retail spaces such as a coffeehouse, barbershop, dry cleaners, grocery store, and even a furniture rental shop. The result was the first mixed retail-residential development on DOD property. In addition, the architecture for each village was purposefully distinct: the community's three- to five-bedroom homes included Georgian Colonial style townhouses, Colonial Revival style officers' quarters, and single-story bungalows specially designed for people with physical disabilities. Fort Belvoir Communities has won more than 25 awards, including the Congress of New Urbanism award for superior

community planning, making Clark Pinnacle a leader in privatized family housing developments.

At all Clark Pinnacle housing projects, the company has sought to provide spacious homes for service members and their families, whether the home is located in one of the country's most expensive housing markets (Fort Belvoir) or in the vast expanses of the Mojave Desert (Fort Irwin). A representative of Clark Pinnacle explained, "We believe that the most important element of community design is the opportunity to foster relationships and promote cohesiveness among families whose parents and loved ones are abroad. This neighbor-to-neighbor interaction thrives within our new RCI developments, with each installation carefully focused on creating a network of support for Army service members and their families. We understand that it is the Soldier who enlists, but the *family* who re-enlists."⁵⁷



FIGURE 7-15. Interior of new community center at Fort Irwin, Calif.

Courtesy of Clark Realty Capital.

Taxes had not been a major hurdle during planning and implementation of the pilot projects, but the RCI Program Office was aware of the possibility that property taxes could become an issue, which would create additional costs for the private partner. The August 2000 Fort Carson Lessons Learned Conference had specifically addressed the subject of taxation, and participants had decided that it was a battle that each project would have to fight on a case-by-case basis. The pilot projects were able to get property tax waivers from state governments before the projects were transferred, but in October 2002 the RCI Program Office identified three potential taxation trouble spots: California, Virginia, and North Carolina. Army officials initiated "low-level" meetings between the OSD Office of General Counsel, the RCI Program Office, the Corps of Engineers' Norfolk District Real Estate

Division, and installation RCI staff in these states to address the potential taxation problems.⁵⁸

During the discussions, the Office of General Counsel insisted that "the developer partner should get in front of this action and NOT the Army" because "if the Army raises the issue, then it heightens the chance of the project being viewed as 'governmental'" and being scored by OMB accordingly.⁵⁹ More specifically, "OMB could use a prior government-to-government negotiation as grounds to support a 100% scoring requirement."⁶⁰ The scoring concerns led the Army to stop writing "papers or fact sheets to leave with taxing authorities." The conclusion, instead, was that the installation command team and the partner needed to become well versed in the local tax code and be prepared to educate community members about the Army's role and objectives in the RCI partnerships.⁶¹



FIGURE 7-16. Construction of new RCI housing in the Village at Parks neighborhood at Camp Parks, Calif.

Courtesy of Clark Realty Capital.

At the Presidio of Monterey, the partner—Monterey Bay Military Housing, LLC—had negotiated a favorable agreement with the state of California. In particular, Shirley Johnson, the tax counsel for the State Board of Equalization, determined that “an agency relationship exists between the federal government and the LLC.” As such, “the LLC lacks the independence necessary to have taxable possessory interest in the military housing it administers.” In addition, “the substance of the underlying transaction guarantees that at all times the federal government has full control, possession, and ownership of the property.”⁶²

But the state board’s decision about the Presidio project appeared to have little effect on the Alameda County assessor’s position that Parks RFTA should be subject to taxation. The assessor’s office confirmed its opinion after a meeting with Clark Pinnacle staff on August 28, 2003, where it “dismiss[ed]

the State Board of Equalization position for the Presidio of Monterey project” and asserted that the private partner for Parks RFTA did have a “possessory interest” in the property.⁶³ Because the assessor’s opinion seemed unlikely to change, the partnership had to decide whether to eliminate the Parks portion of the housing project or find some other means of obtaining relief from the county’s decision. The partnership ultimately decided to keep Parks as a part of the project and to search for a legislative solution. Through the workings of California’s congressional delegation, especially U.S. Representative Ellen Tauscher (D-California), the partnership finally got the Alameda County Assessor’s office to agree in October 2003 not to tax family housing at Parks, thereby eliminating that obstacle to the Irwin/Moffett/Parks project.⁶⁴

Having overcome the taxation hurdle at Parks, the partnership was able to begin implementation

of the CDMP at all three installations. Although the problems with Orion Park pushed back some planned construction and altered the project’s scope, Clark Pinnacle was able to begin development of the Crackerjack Flats family housing community at Fort Irwin as its first new construction effort. With 241 single-family houses and duplex apartments, the neighborhood became the first completed piece of the combined Irwin/Moffett/Parks project in September 2006.⁶⁵

With the successful completion of Crackerjack Flats, the Irwin/Moffett/Parks project demonstrated that combining installations could succeed and that issues such as taxation were not insurmountable. Yet the Orion Park situation showed the problems that environmental issues could cause and ways in which unforeseen circumstances could force changes in original CDMP plans. The flexibility of the RCI program was essential in enabling the Army to continue with the housing program, notwithstanding the financial issues. Instead of halting all construction, the Army was able to postpone certain plans while proceeding with others, a flexibility that is the hallmark of a program that has come to maturity.

PRESIDIO OF MONTEREY (CALIFORNIA)

While the Irwin/Moffett/Parks project overcame many hurdles to become the first multiple-installation RCI project, another California site, the Presidio of Monterey, was also precedent-setting in becoming the first dual-service privatization project. The Presidio of Monterey is located within the city of Monterey, California, but it also has jurisdiction over operational and family housing facilities on the nearby Ord Military Community in Seaside. The Presidio is home to multiple military and civilian organizations, including the Defense Language Institute. Monterey and the surrounding

communities of Pacific Grove, Seaside, and Sand City were and are highly prized residential areas along the Pacific Coast about 100 miles south of San Francisco.

Originally, the Presidio was a sub-installation of nearby Fort Ord. When the Army’s Base Realignment and Closure (BRAC) process closed Fort Ord on September 30, 1994, the Presidio became a separate installation under the U.S. Army Training and Doctrine Command (TRADOC). Fort Ord had possessed the larger housing stock of the two installations and had provided most of the support services for the Presidio. Between the Presidio and Fort Ord, the Army owned 1,676 housing units, although an Interservice Support Agreement gave the Navy “assignment rights” to 600 of those homes. The Navy also owned 620 homes in the La Mesa Village family housing community at the Naval Postgraduate School (NPS), also in Monterey. In addition, Fort Ord had supplied the Presidio with services, including fire protection, police, and utilities. When Fort Ord closed, the Presidio contracted these services out to neighboring communities.⁶⁶

In the fall of 1997, the Capital Venture Initiatives (CVI) program staff approached the Navy regarding the possibility of collaborating on a privatization project at the Presidio. Of all the services, the Navy was the first to embrace MHPI privatization, getting authority from Congress in 1995 to pursue two projects, one in Corpus Christi, Texas, and the other in Everett, Washington. But after those first forays, the Navy took much longer than the Army to move into large-scale privatization projects and, according to the staff at NPS, the Navy was still lagging behind when the idea of collaborating on the Presidio project arose.⁶⁷ As a result, the NPS was receptive to Army plans for a CVI project. In September 1997, Army Colonel

David Gross, garrison commander of the Presidio, announced that the installation wanted to take advantage of the CVI program and that it also wanted to include the Navy in its planning.⁶⁸ A CVI team visited the Presidio in October 1997, after which Gross requested that Army officials conduct a feasibility study for implementing CVI at the Presidio and at the Ord Military Community.⁶⁹

In early 1998, NPS and Presidio representatives met to discuss the practicality of a collaborative privatization project. Rear Admiral Robert Chaplin, NPS superintendent, wrote that “utilization of knowledge and resources [at] both the D.C. and local levels from both services will allow us to collectively provide optimal solutions.”⁷⁰ Early deliberations produced a non-binding decision that the Army should be the lead agency because the Army’s RCI program was moving more quickly than the Navy’s public-private housing ventures.⁷¹ Under the developing plans, the Army would work with the Navy to conduct a joint privatization project for the Presidio and the NPS. In May 1998, Navy Base Commander Tim Smith reported that the Navy “fully support[ed] a joint privatization program as the best long term approach to family housing.” In order to push the project forward, Smith assigned Navy personnel to work fulltime with the Army’s CVI staff on details of a joint program.⁷²

Several roadblocks slowed the collaborative process, however, and revealed the problems that could arise as two separate services worked towards joint privatization. When Sandy Apgar, who became Assistant Secretary of the Army for Installations and Environment in 1998, began to redirect Army privatization from CVI to RCI, delays were inevitable. But Navy staff at the NPS interpreted the delays to mean that the Army had lost interest. Their thinking was that the Army had either put a “freeze” on privatization projects or had decided

to abandon privatization altogether (given the end of CVI). For example, Penny Sinclair of the Navy emailed Army staff, “The Navy is concerned that the Army has put CVI on hold. It looks like the Navy may change its mind about the Army holding the lead position for this joint project because of the freeze the Army is under.”⁷³ Larry Wright, a member of the staff in the Office of the Assistant Chief of Staff for Installation Management, responded quickly, asking, “Where does ANYBODY get that the Army’s program is frozen? In fact, the Army has received criticism from both OSD and Congress for moving too fast.”⁷⁴ Wright emphasized that the Presidio solicitation was still scheduled for release in the second quarter of FY 2000.

Despite Wright’s assurances, however, the Navy became less enthusiastic about participating with the Army in privatizing military homes. But luckily, Colonel Peter Dausen, who had become garrison commander of the Presidio in 1998, fully supported using privatization authorities to increase housing on the base. Dausen first investigated the legal authorities regarding out-leasing in Section 2667 of the *U.S. Code*, which the Army had utilized originally at Fort Ord and Fort Hunter Liggitt to privatize housing at the Presidio. But RCI also intrigued Dausen. The problem, he later remembered, was that after Assistant Secretary Apgar announced the RCI program, Apgar had his staff “prioritize all the Army posts from one to the bottom in rank order of how he intended to ... privatize them.”⁷⁵ The Presidio appeared at the bottom of the list. Dausen took Apgar on a tour of the installation in 1998, but the Assistant Secretary still seemed less than enamored with its prospects. According to Dausen, he then told Apgar, “Well, sir, if you don’t see this as being valuable for your project, then I’ll just go ahead and do a 2667 on my own.” Soon



FIGURE 7-17. Young residents and renovated homes at the Presidio of Monterey, Calif.

Courtesy of Clark Realty Capital.

after, Dausen related, “We were up to number six or seven on the priority list.”⁷⁶

Before the Army had proceeded much further, however, Dausen retired from the Army and began a Civil Service career as NPS base director. One of the first things he did was to discuss with Rear Admiral David Ellison, who had become superintendent of the NPS in 1998, how the Army’s RCI program would benefit the Navy. After hearing presentations from both the Naval Facilities Command on its privatization program and from the Army on RCI, Admiral Ellison decided that the Navy should consider fulfilling its needs through the Presidio’s RCI project.⁷⁷

Accordingly, the Army went forward with its planning and issued an RFQ for the California group on December 11, 2001, including the joint

Presidio/NPS project. In June 2002, the Army selected Clark Pinnacle as the developer and work on the CDMP began. According to one RCI report, Clark Pinnacle would receive 1,675 homes, including 37 historic houses, at the Presidio of Monterey and renovate or replace 1,669 of those homes.⁷⁸ It would also construct 1,434 new homes at the Ord Military Community and another 589 homes at the Navy’s La Mesa Village, where students of the NPS lived. Clark Pinnacle also proposed renovating the new homes every 10 years and replacing them after 36 years.⁷⁹ In October 2003, transfer of the housing units to Clark Pinnacle occurred.

Although the Presidio was the first joint-service RCI project, communication and relationships between the Army and the Navy proceeded relatively smoothly, in part because of the willingness



FIGURE 7-18. “Spooktacklar” event sponsored by Monterey Bay Military Housing, the public-private partner at Presidio of Monterey/Naval Postgraduate School, Calif.

Courtesy of RCI Office.

of leaders on both sides to cooperate. One of the issues that the program faced was whether an Army or a Navy leader would be the service representative on the Major Decisions Committee. According to Patrick Kelly, the RCI manager at the Presidio, Admiral Ellison “decided it was in the Navy’s best interest ... for the Army to ... lead [the project], even though he [Admiral Ellison] was a two-star and my garrison commander is a colonel.”⁸⁰ Ellison thus consented to having the Presidio garrison commander serve on the committee, with the hope that the Army would look out for the Navy’s interests. Not only did this evince trust between the parties, but it also facilitated communication, as the Army tried to ensure that it understood the Navy’s position on issues requiring action by the Major Decisions Committee.

In addition, the particular nature of the facilities located at both the Presidio and NPS sparked some innovations in RCI. Since both the NPS and the Defense Language Institute were learning institutions, both bases had a considerable number of students involved in intensive educational programs. Recognizing this, Clark Pinnacle discussed

housing requirements with school officials and with residents, asking them, “If we were going to build the dream home ... what would it include?” Based on these discussions, Clark Pinnacle decided to equip housing units with high speed wireless internet service, one of the first RCI projects to do so. In 2007, Patrick Kelly reported that 70 percent of the residents in RCI housing had taken advantage of the wireless service, showing that it was a desirable amenity. Likewise, Clark Pinnacle included a “true study” in each home where students could sequester themselves to do their homework. Such creativity produced homes that fit the needs of residents on both installations.⁸¹

Notwithstanding these successes, not everything worked perfectly with the Presidio RCI project. In 2007, for example, the project faced funding shortfalls because of the rising costs of construction materials and interest rate problems. This meant that the project could not construct as many homes in its initial development period as planned. Instead, Clark Pinnacle had to turn to renovating more homes, rather than demolishing them and building anew.⁸² It took some time to get the Navy on board with this project change, but thanks to steady communication between the parties, the project went forward with a minimum of complication. Overall, in terms of being the first joint-service project, the Presidio succeeded remarkably well. It clearly demonstrated the feasibility of including other services in RCI projects.

WALTER REED ARMY MEDICAL CENTER/ FORT DETRICK (WASHINGTON, DC, AND MARYLAND)

The program flexibility that RCI staff and the private partner demonstrated in working out the complexities of multiple installation projects at the Presidio of Monterey and at Irwin/Moffett/Parks



FIGURE 7-19. New RCI housing at La Mesa Village, Presidio of Monterey/Naval Postgraduate School, Calif.

Courtesy of RCI Office.

was also evident as the Army launched the Walter Reed Army Medical Center/Fort Detrick privatization project in the Washington D.C. area. The project experienced problems similar to those at Irwin/Moffett/Parks, related to combining smaller installations into one RCI project.

Fort Detrick is a small installation in Frederick, Maryland, approximately one hour northwest of Washington D.C. The diversity of the federal presence was clear from the base population. When RCI initiated housing privatization plans, the post was home to 38 different military and civilian agencies, among them the National Cancer Institute, the National Institute of Health, the National Security Agency, the U.S. Air Force, and NASA, in addition to the Army. A November 2001 census showed that there were four times more federal

civilian employees at Fort Detrick than military members stationed there. In the family housing community, retired military personnel outnumbered active military by four to one.⁸³

Walter Reed Army Medical Center, meanwhile, is located in the Northwest quadrant of the District of Columbia (D.C.), and its location within the D.C. city limits made it the first truly urban RCI project. At the time of the RFQ, Walter Reed’s housing footprint was in two separate areas: the main area, containing the hospital and research facilities as well as 10 historic houses; and the Glen Haven Housing Area in Maryland, roughly four miles north of the main area, containing 211 housing units spread over 20 acres.⁸⁴

Both installations were included in the November 2001 Northeast RFQ. Unlike the Irwin/Moffett/Parks cluster, though, Walter Reed, Fort Detrick, Fort Hamilton, and Picatinny Arsenal were proposed as separate projects. The Army had broached the idea of combining Walter Reed and Fort Detrick into a single project during one of the industry forums at the outset of the solicitation, but after industry representatives explained that they would rather treat the two as separate entities, RCI officials decided to include each installation as a distinct project.⁸⁵

The Army selected GMH as the partner for Walter Reed in April 2003 but did not immediately make an award for Fort Detrick. Instead, the RCI Program Office approached GMH regarding the possibility of combining the two installations into one project, although it emphasized that all such discussions were “informal” because the project was “still procurement sensitive and close[ly] held due to Congressional notification requirements.”⁸⁶ In mid-June, the RCI program staff, the Army procurement attorney, and the Office of the General Counsel met at Fort Detrick to discuss



FIGURE 7-20. Housing at Fort Detrick, Md., before implementation of RCI.

Courtesy of Balfour Beatty Communities.

further a combined project. In a subsequent review document, the Army identified three “key drivers” underpinning the project proposal: “efficiency for the project as a whole,” “efficiency for the ongoing project manager,” and a desire to create the best possible financial package.⁸⁷ After a month of discussions with GMH, the Army formally combined the two projects and announced on July 1, 2003, that it had selected GMH Military Housing, LLC, as the partner for both installations.⁸⁸

At the time, GMH was a joint venture among GMH Associates, Inc. of Philadelphia; The Benham Companies, LLC, an architectural/engineering/development firm based in Oklahoma City; and Centex Construction Company of Dallas.⁸⁹ (In 2008, GMH was acquired by Balfour Beatty Capital, a British engineering and construction company, as discussed

in Chapter 9.) GMH had already been selected as the development partner for the Fort Stewart/Hunter Army Airfield RCI project in Georgia.

As GMH began its work on the Walter Reed/Fort Detrick CDMP, the Army had to decide who would have overall executive authority for the project. In the Irwin/Moffett/Parks project, this was not a significant issue because Fort Irwin was substantially larger and more central to national defense efforts than the other two bases. Therefore, it made sense to make the installation commander at Irwin the executive commander for the entire project. But Walter Reed and Detrick were not far apart in size or importance (although Walter Reed certainly had more public name recognition), and the two installations were difficult to compare in terms of functions. Eventually the

two installations, the RCI staff, and the partner’s team worked out a Memorandum of Agreement, finalized on March 10, 2004, that established the “Military Project Executive” position to vote on behalf of the Army on major decisions. Each garrison commander would fill the post for one year on a rotating basis, with Fort Detrick’s Colonel John Ball assuming the position for the first year.⁹⁰ Robert Shepko, Project Director for GMH Military Family Housing, explained that establishing the agreement and “trying to balance the needs of two particular locations” was a significant achievement for the privatization of Walter Reed/Detrick family housing. “It could have been difficult because they were giving up control” of some of their installation command authority, Shepko added, but both “Colonel John Ball and Colonel Jeff Davies ‘got it’ [the concept of partnering] early on.”⁹¹

Once the Memorandum of Agreement was signed, the remaining privatization issues involved installation-specific problems or challenges that the partnership and installation teams worked together to solve. Walter Reed, for instance, lacked sufficient land for the number of new homes needed to eliminate its housing deficit. The Army’s 2001 Housing Market Analysis (HMA) called for a total of 609 housing units for Walter Reed, nearly 400 more than the existing total, and hundreds more than the two housing areas of the installation could accommodate.⁹² Although the adoption of D.C. standards allowed a higher per acre housing density than was typical of most RCI projects, the lack of available space at Walter Reed, which could accommodate only 23 new homes, meant that the project still required an additional housing area. To solve this problem, the CDMP proposed a two-phase project development plan.⁹³

During the first phase of the development, GMH would receive housing units in the Glen



FIGURE 7-21. Family housing at Walter Reed Army Medical Center, Washington, D.C., prior to RCI privatization.

Courtesy of Balfour Beatty.

Haven area of Walter Reed, as well as three historic homes on the main post.⁹⁴ GMH would renovate and replace houses within the Glen Haven area, providing 234 homes, and would renovate the historic structures as well. In addition, GMH would construct new townhouse units and some larger apartment buildings to produce more housing. But the partnership would still be left with the task of finding additional land for 609 homes, something that would occur in the second phase of development. Because that second phase could not begin until the partnership identified and acquired more land, RCI staff began working on the real estate acquisition even before the partnership had completed the CDMP.⁹⁵ It looked originally at Forest Glen, another Walter Reed parcel, but this land proved unsuitable when environmental testing discovered contamination from a nearby landfill. Another tract of government land, known as White Oak, also failed to meet environmental standards.⁹⁶

Uncertainty about the availability of an appropriate parcel for the Phase II build-out strained project planning and financing. Walter Reed’s location created additional complication, as the



FIGURE 7-22. New RCI homes at Fort Detrick, Md.

Courtesy of Balfour Beatty Communities.

partnership had to work through different jurisdictional issues in Washington, D.C., where the main post was located, and in Montgomery County and Prince George’s County, Maryland, where the other parcels were scattered. However, before the partnership could identify another suitable piece of land, the Army designated Walter Reed for closure under its 2005 BRAC program. At that point, according to Shepko, “the need for that additional parcel and everything else kind of fell by the wayside.”⁹⁷

The 2005 BRAC process was the fifth round of military installation closures and reductions, the others having taken place in 1988, 1991, 1993, and 1995. Under BRAC, the DOD determined whether to close, realign (which often meant downsize), or expand installations, based on a process that “evaluate[d] its current stationing plan against multiple variables: the changes in threat, force structure, technologies, doctrine, organization, business practices, and plant inventory.”⁹⁸ The RCI Program

Office worked closely with the Norfolk District of the Corps of Engineers and its real estate team to mitigate the effects of BRAC. In general, closing a base meant that the RCI program would either liquidate the LLC or conduct a major restructuring to ensure that the LLC could still succeed. The Army had inserted provisions into many CDMPs providing options if an installation faced closure. The CDMPs for Forts Hood, Lewis, Meade, Bragg, and the Presidio of Monterey, for example, all had “a ‘fair market value’ purchase option for the developer in case of base closure.” In other instances, installations might only see a reduction in soldiers, meaning that the family housing requirement would decrease. In that scenario, the Army would consider altering the CDMP. Whatever the solution, all stakeholders—including the Army, the partner, and the financier—needed to concur.⁹⁹

After the DOD released its final 2005 Defense Base Closure and Realignment Report, the RCI



FIGURE 7-23. RCI housing constructed at Walter Reed Army Medical Center, D.C.

Courtesy of Balfour Beatty Communities.

project partners learned that the main Walter Reed installation would close but that the majority of the housing, located four miles to the north, would remain open. The Army would shift a number of Walter Reed’s major programs either to the former National Naval Medical Center in Bethesda, Maryland, which was renamed the Walter Reed National Military Medical Center, or to Fort Belvoir, Virginia.¹⁰⁰ Other programs were moved to the Forest Glen Annex, the site where the Army had originally wanted to place some of the new housing development. Altogether, BRAC realignment at Walter Reed resulted in a loss or relocation of 5,630 civilian and military positions.¹⁰¹

Once the Army announced the final BRAC decision, RCI staff determined that Walter Reed no longer required the extra parcel to expand family

housing and the partnership removed that element of the CDMP from the project.¹⁰² In a somewhat ironic turn, BRAC transferred the Forest Glen property to Fort Detrick just at the point when the project had no need for the additional land. BRAC did not affect Walter Reed’s Glen Haven Family Housing Area and, on October 1, 2008, the Army transferred all of Glen Haven’s land to Fort Detrick, as this lease too belonged to the GMH project.¹⁰³

As far as Fort Detrick was concerned, the CDMP outlined an initial development period that included construction of 251 new homes and renovation of another 103 housing units. The number of houses slated for renovation was roughly twice that of the original project scope, which had called for more new construction and less renovation. Without the larger financial package that the pre-BRAC

development plan for Walter Reed would have commanded, there was less money in the project for new housing at Fort Detrick.¹⁰⁴ Because GMH had to retain more of the older housing units at Fort Detrick, the occupancy rate at the post dropped to 84 percent in 2006. According to a PAM site visit report, the low occupancy was directly related to “the varying quality of housing available to renters.” Soldiers and their families found the older homes unattractive compared to the new homes, which were, however, close to fully occupied. The “have/have-not” sentiment was an issue that the RCI program faced on nearly every installation, but it was especially intense at Fort Detrick, where the new housing inventory was so low.

There was one other reason, in addition to dissatisfaction with the older housing, for the low occupancy rate at Fort Detrick. That other reason, according to the PAM report, was that the original HMA had “overestimated the number of potential renters.”¹⁰⁵

The combined-installation projects and the privatization of small bases were two of the biggest concerns for the RCI program between 2002 and 2005. All of the combined projects discussed in this chapter—Walter Reed/Detrick, Irwin/Moffett/Parks, and the joint Army/Navy Presidio of Monterey—experienced problems in trying to fold construction, property, taxation, and BAH issues at multiple installations into a single financial package and development plan. In many cases, the result was less new construction than originally desired and more renovation. Yet even with these difficulties, the projects demonstrated that effective teamwork between the private partner, the RCI office, and the installation commanders, coupled with the flexibility of the RCI program, could establish successful family housing communities. At the same time, the RCI program also launched

new projects at other installations, such as Fort Belvoir and Fort Sam Houston, which opened up new directions for the privatization program and led to new challenges.

FORT BELVOIR (VIRGINIA)

Before becoming the family housing partner for the Irwin/Moffett/Parks project, Clark Pinnacle had won the solicitation for the RCI project at Fort Belvoir, Virginia. One of the major issues at Belvoir was how to implement aspects of New Urbanism architecture. New Urbanism, an urban design movement that arose in the early 1980s, favors walkable neighborhoods over automobile-oriented city planning, as well as the integration of residential and work space, rather than their location in separate parts of the city. In the case of Fort Belvoir, New Urbanism meant the inclusion of a community town center complete with apartments and retail space. The question was how to do this without upsetting the Army and Air Force Exchange Service (AAFES), which had long been the sole provider of retail shopping on installations. In addition, as with other installations, Fort Belvoir encountered environmental problems that delayed the RCI process. But the project overcame these obstacles and became a model development for the RCI program.

First used by the Army as an engineer training facility in 1915, Fort Belvoir was originally known as Camp A. A. Humphreys. In 1935, the name changed to Fort Belvoir, although it continued to be an important training ground for Army engineers. By 2002, Fort Belvoir was a mid-sized but expanding installation covering 9,239 acres along the west bank of the Potomac River. It consisted of three segments: North Post, South Post, and Southwest Post. Almost all of the operational, administrative, and housing facilities sat on either the north



FIGURE 7-24. Historic-era duplex family housing at Fort Belvoir prior to RCI renovation.

Courtesy of Clark Realty Capital.

or south post; the southwest post was primarily undeveloped land. Fort Belvoir housed a number of different DOD organizations and had long been the home installation for the Corps of Engineers. The Corps’ Humphreys Engineer Center was immediately adjacent to the base, and the Engineer Proving Ground was only two miles away. After the September 11, 2001, terrorist attacks, a number of organizations that the DOD believed were vulnerable to possible attacks in the future were relocated to Fort Belvoir.¹⁰⁶

In addition, Fort Belvoir was often highly visible on the public, military, and congressional radar because of its close proximity to the nation’s capital, the Pentagon, and neighborhoods along

the Potomac River that were highly vocal about quality of life issues. Located just 18 miles from the Pentagon, Fort Belvoir was, in the words of former Army Chief of Staff General Eric Shinseki, the Army’s “flagship installation.”¹⁰⁷ Because it was in such a high-profile location, Fort Belvoir experienced considerable external community involvement in many aspects of its RCI project.

In 2002, the Army issued its RFQ for Fort Belvoir, including Forts Eustis, Story, and Monroe in the solicitation. On September 24, 2002, it awarded the Fort Belvoir project to Clark Pinnacle. Under the original plan, Clark Pinnacle would renovate 178 of the installation’s historic homes and build 2,890 homes—1,892 as replacements

and 998 as new construction.¹⁰⁸ Because the project proposed the development of nearly 1,000 new homes, the surrounding community of Fairfax County, Virginia, became concerned about the potential impact on its quality of life.

After hearing the Army's announcement of its RCI plans, the community raised a number of concerns. One was commuter car traffic around the base and the project's impact on the regional transportation grid. Donald Carr, public relations specialist at Fort Belvoir, described the installation as a "bedroom community," where "a large percentage of housing residents do not work on the post," but instead "drive out the gate and get on [Interstate] 95 and Richmond Highway and these other already very seriously over-clogged, underdeveloped roads."¹⁰⁹ Local residents feared that expanding the amount of housing at Fort Belvoir would increase traffic, lengthen commute times, and decrease vehicle safety for them throughout the area. In addition, the Army and the DOD were adding more headquarters buildings at Belvoir, increasing the number of people driving to the base each day. Alarmed by the threat of ever-worsening traffic conditions, community advocates contacted their representatives in Congress, U.S. Representatives Jim Moran (D-Virginia) and Tom Davis (R-Virginia), who responded immediately that the Department of Army needed to take measures to alleviate community fears.

The involvement of Moran and Davis spurred RCI officials to increase their communication with the local community, and OSD representatives became involved as well. Eventually, the Army decided that it would not increase the number of homes at Fort Belvoir but would work with the existing housing inventory. This appeased community members, but other issues soon arose.

One of the most prominent problems involved Little League baseball fields located on a parcel targeted to become one of the new family housing neighborhoods under RCI. The ball fields were a key part of the CDMP for the new housing build-out because they were already zoned for residential construction.¹¹⁰ Although soldiers used the fields for informal sports and for family events, the Army also allowed the Woodlawn Little League to play their games there under a three-year "revocable at will" license issued to the league for "nonexclusive use." Despite the fact that Woodlawn was only leasing the tract, the Little League had, in a certain sense, appropriated the fields as its own. In fact, the organization built some of its own facilities and named the diamonds the "John McNaughton Memorial Fields."¹¹¹

In 2003, according to Belvoir's public relations specialist Donald Carr, the Army sent Little League officials "a very cold, terse, straightforward e-mail telling them go find somewhere else to play" because the land was needed for RCI. Numerous protests followed.¹¹² One *Washington Post* editorial questioned whether the situation was a part of the "unraveling of the once-close but now fraying ties between Fort Belvoir and its neighbor." With the Army still insisting that it needed the property for RCI, U.S. Senator George Allen (R-Virginia), a friend of a member of the Woodlawn Little League Executive Council, involved himself in the cause. According to a 2003 article in the *Washington Post*, Allen announced that he would "introduce an amendment requiring the Army to locate the housing elsewhere on the post."¹¹³ At that juncture, William Armbruster, Deputy Assistant Secretary of the Army for Privatization and Partnerships, became involved, writing to Allen to explain the need for the parcel and urging negotiation of a solution acceptable to all.¹¹⁴ Through negotiation, the Army and Fairfax

County agreed that, in exchange for the ball fields, Fairfax County Parks and Recreation would provide Fort Belvoir with another piece of land. The agreement gave the little league the fields it needed and allowed the RCI program to go forward.¹¹⁵

Yet soon, as at other installations, environmental issues emerged. Instead of toxic contamination of the soil, as at Moffett in California, the potential roadblock involved a rare species of crustacean found near one of the many seeps leading to streams flowing down to the Potomac River. In 1996, on Belvoir's South Post, a state zoologist discovered a live member of the species Northern Well Amphipod, a crustacean so rare that individuals of the species had been found only twice before, the last nearly 50 years earlier. The crustacean had, for all intents and purposes, been ruled extinct until the 1996 discovery.¹¹⁶ But because of that find, the Environmental Assessment (EA) for the RCI project included field surveys to determine whether other members of the species were present.

In March 2003, scientists of the Virginia Department of Conservation and Recreation Division of Natural Heritage conducted a field survey at 44 locations, including the 1996 discovery site. The survey discovered two more specimens at the same seep where the zoologist found the 1996 specimen. According to the survey report, the results, "coupled with the ground water hydrology information gathered at Fort Belvoir, strongly suggest that there is something geologically or biologically significant" about the particular seep where all three individuals were found, particularly since surveys at the other 43 sites turned up no members of the species.¹¹⁷ This finding raised the question of whether the Fort Belvoir seep was the only location of this crustacean species worldwide and whether sufficient testing had ever been done at other sites beyond the boundaries of the installation. To

perform the required testing would take several years, leading Patrick McLaughlin, Fort Belvoir's Chief of Environment and Natural Resources, to announce that building RCI housing on or near the site would "slow the process by 3-3 ½ years."¹¹⁸ At a minimum, the presence of the endangered species would extend the date for the completion of the final EA, which was needed for making final housing footprint decisions.

Because of the projected delays in completing the EA, Clark Pinnacle decided to go forward with a shrunken RCI housing footprint, in part to avoid the endangered species issue and in part to alleviate local concerns about increased traffic. This, in turn, affected the amount of development that could occur during the initial development period. Clark Pinnacle had to scale back its plans so that the initial development period would focus primarily on the renovation of the existing 2,070 homes. To mitigate some of the shortfall, RCI staff and Clark Pinnacle agreed to alter the makeup of the homes. Instead of providing all "single-family detached homes," as originally called for in the RFQ, the final CDMP stated that Clark Pinnacle would produce "60 percent single family, 20 percent town homes, and 20 percent duplexes."¹¹⁹

Don Spigelmyer, who was then director of RCI, recalled discussing the unusual Fort Belvoir issues with William Armbruster and Ivan Bolden: "We all agreed that the little leaguers had taken our knees out with their bats and the microscopic shrimp had eaten our lunch. We had fought a lot of battles to make the RCI program successful, but we never thought we would have to fight little leaguers and invisible shrimp—and then lose!"¹²⁰

The project also explored the option of creating a greater per-acre housing density and a resulting stronger sense of community to make the best of the shrinking footprint.¹²¹ Using modern



FIGURE 7-25. Village Green neighborhood at Fort Belvoir, Va.
Courtesy of Clark Realty Capital.

urban design principles for creating a more livable community, Clark Pinnacle and Torti Gallas (the architect Clark Pinnacle was using) developed a plan to create 15 villages containing “Colonial- and Federal-style homes clustered around playgrounds, narrow streets and communal mailboxes.” In addition, Clark Pinnacle would construct a town center on the installation’s Main Street, consisting of 11 retail shops situated beneath 24 two-story townhouses open to all ranks on the base.¹²² The apartments in the town center would increase housing density, while the center itself would serve as a community gathering place.

These proposals were in keeping with the overall New Urbanist emphasis of the Fort Belvoir

CDMP, which recommended transforming Fort Belvoir family housing from “a collection of sprawling, outdated houses into a vibrant community with a sense of place, cohesion and extensive recreational and community amenities.” The town center, however, had not been part of the RFQ for Fort Belvoir, and no other RCI project to that point had developed concrete plans to build a center that had both housing and retail.¹²³

Although there was no precedent for it in the RCI program, Clark Pinnacle team members had expressed interest in incorporating mixed-use retail early in their involvement in the project. The town center concept actually surfaced in the CDMP in the spring of 2003, but Cleve Johnson,

Managing Director of Clark Realty, first broached the idea of developing some sort of retail as part of RCI during Clark Pinnacle’s preparation of its RFQ response. The concept, however, was controversial for RCI because of the earlier battles that Assistant Secretary of the Army for Installations and Environment Sandy Apgar and others had had with AAFES over the definition of ancillary facilities in the *Military Housing Privatization Initiative* (MHPI) legislation.¹²⁴

When Apgar originally proposed RCI to Congress in 1998, he saw “retail, entertainment, and related community services as essential components of a vibrant Army family community.”¹²⁵ But supporters of AAFES saw Apgar’s plans for the Army’s housing as threats to that organization, which led Congress to insist that retail elements be eliminated from RCI projects. Nevertheless, in the preparation of the CDMP at Fort Meade, the RCI office, Picerne Military Housing, and the installation’s AAFES manager attempted to negotiate a Memorandum of Agreement that would allow inclusion of a small “shopette” in each of the new neighborhood centers within the family housing neighborhoods. Still, other AAFES officials quashed the agreement, saying that the plan was “not economically feasible.”¹²⁶

This earlier attempt to coordinate with AAFES alerted Clark Pinnacle to the opposition that the town center concept might face. Yet collaborating with AAFES was unavoidable because that entity held the legal authority to establish and run retail operations on installations, and it was accustomed to determining where and what kind of retail establishments belonged on posts. Clark Pinnacle decided to approach AAFES with the town center idea to see if the organization was willing to partner with the developer.¹²⁷

When Clark Pinnacle first contacted AAFES, the service was interested but expressed concern

about a number of roadblocks that might make it difficult to become involved with an RCI project. For one thing, the MHPI legislation prohibited using RCI money for “non-housing associated amenities such as retail.” Eventually, the two sides agreed on a plan. Clark Pinnacle “would produce a raw building shell which AAFES would fund and fit out.” AAFES would repay Clark the cost of construction over a period of six years. After that time, AAFES would pay Clark \$1 annually for rent.¹²⁸

With this arrangement in place, Clark Pinnacle constructed its Village Commons in Herryford Village. More than 67,000 square feet in the commons was devoted to residential homes, while 13,600 square feet was used for retail establishments (such as a Starbucks cafe, a convenience store, and a laundromat) and 5,000 square feet was designated for office space. According to Apgar, the Village Commons was “a pioneering example of an alternative for providing retail on military installations.”¹²⁹

Utilization of the town center design at Fort Belvoir reflected a progression within the RCI program in which partnerships produced an increasing number of ancillary features. Housing development at Fort Carson, for example, focused almost entirely on getting the houses built. The focus shifted in the RCI pilots at Forts Hood, Lewis, and Meade to include sidewalks, running trails, community centers, and playgrounds, among other things. Lieutenant General Edward Soriano, who served as the commanding general during CVI implementation at Fort Carson and then was a commander at Fort Lewis during RCI development, pointed to these community enhancements as one of the biggest differences between the CVI and RCI programs. In contrast to Fort Carson, Soriano observed, “Fort Lewis did a great job of establishing villages and communities up there. And each one had sort of a distinct flavor.”¹³⁰ As



FIGURE 7-26. Soldiers in front of Starbucks, built as part of the town center at Herryford Village, Fort Belvoir, Va.
Courtesy of Clark Realty Capital.

more private companies gained experience with RCI, they looked forward to including additional innovative facilities in the presentation package.

In incorporating New Urbanism principles in the Fort Belvoir CDMP, the Army and Clark Pinnacle also focused on connected neighborhoods and ancillary features that fostered better communities. The town center was but one part of the overall design for Herryford Village, the centerpiece of Fort Belvoir's RCI program. Other proposed features included an open green space and streets conducive to pedestrian travel.¹³¹ All were elements of the New Urbanism that James Rouse interpreted and helped popularize.

Completed in July 2007, Herryford Village included 171 family housing units of various sizes, with the town center at the heart of the community. Army staff, design professionals, and the media all took note of this precedent-setting construction. In 2005, Clark Pinnacle received the Best in American Living Award from the National Association of Home Builders for its work on Herryford Village. This award from the "foremost residential design competition in the country" recognized "communities that illustrate design quality, success in the marketplace, and exemplify the best in American living." It highlighted the "pedestrian-friendly streetscapes and generous open spaces" of Herryford Village, as well as its environmental sensitivity and its "state of the art program" to furnish each new home with "high-speed fiber-optic communication lines."¹³² The Congress for the New Urbanism (CNU), a nonprofit organization that supports, educates, and sponsors planners and other professionals in development of neighborhoods that are walkable, sustainable, and that promote healthy lifestyles, presented Fort Belvoir and Clark Pinnacle with one of their 2006 CNU Charter Awards, making it the only military project to receive the

internationally recognized award. The *New York Times*, meanwhile, reported that Herryford's "mixed-use district at Belvoir, including a large Starbucks, was a new experiment of the Army." The article emphasized that the rental apartments above the retail spaces were highly desirable and that they were open to varying ranks, revealing "New Urbanist philosophy and a severe departure from the Army's policy of 'no fraternization.'"¹³³

The success of the Herryford Village town center—and its acceptance by AAFES—made it a model for other RCI projects and provided a template for incorporating retail space into other CDMPs. Casey Nolan, Clark Pinnacle Project Director at Fort Belvoir, explained that "the Air Force, the Navy, other Army installations, everybody that comes here, comes [to] see how did this work—what worked, what didn't work, what would you do differently, but, really, just to check it out." It was so influential that "AAFES is now rolling out town center schemes on other installations."¹³⁴ In fact, Fort Irwin, the next installation to propose a town center, based its design on Fort Belvoir's. It would include 200 unaccompanied personnel housing (UPH) apartments and retail spaces on the ground level.¹³⁵

Don Spigelmyer, a former director of the RCI program, holds a very fond spot in his heart for the Fort Belvoir project. He grew up several miles from the base, was a lifeguard at the Officers Club as a teenager, and had his wedding reception at the Officers Club. He returned to Fort Belvoir as an Army 2nd lieutenant, and later as a captain, to attend Engineer Officers Basic and Advanced courses. He recalls that "I lived in the [pre-RCI] housing in the mid-seventies and it couldn't hold a candle to the new housing. I am so proud of what the Army and Clark accomplished at Fort Belvoir."¹³⁶

As more installations altered their CDMPs to include AAFES stores, the RCI Program Office



FIGURE 7-27. Residents walking in front of Herryford Village town center at Fort Belvoir, Va.
Courtesy of Clark Realty Capital.

and AAFES began to negotiate a program-wide agreement related to “our mutual initiative to provide services and facilities in support of the RCI program and its residents.”¹³⁷ In 2006, the two sides concluded a Memorandum of Understanding, stating that “opportunities exist to provide enhanced services to ... military families by coordinating and integrating AAFES’ service delivery with the planning and execution of Army RCI projects.” The agreement sought to “foster more

effective coordination between AAFES and RCI as we work toward our mutual objective of supporting quality communities for military families.” The agreement provided that when a possible project arose, it would be “reviewed and coordinated with AAFES, RCI, the specific Army installation, and the installation’s RCI developer partner.” The agreement demonstrated that both sides were committed to working together to provide services for military families.¹³⁸



FIGURE 7-28. New RCI homes in Fort Belvoir’s Park Village. Clark Pinnacle constructed the Park Village homes in craftsman style to match the original architectural style of the neighborhood. The design team also preserved the original “loop” street network in order to shorten blocks and reduce the amount of area under construction.
Courtesy of Clark Realty Capital.

While development of the town center and Herryford Village proceeded smoothly, finding the best way to deal with Fort Belvoir historic homes that needed renovation or removal proved challenging, as it had at Forts Meade and Lewis. As an older installation, Fort Belvoir was home to a large number of historic properties, which became a central point of discussion during the solicitation and CDMP process. According to the *Washington Post*, “With its stately three-story brick Colonials on either side, the tree-lined street bordering the Potomac River looks like some old-money Millionaires Row.”¹³⁹ Historic

homes gave the installation much of its admired character, but they also posed difficulties for the RCI program. Not only was renovating historic homes more costly, it also entailed working with the Virginia State Historic Preservation Office (SHPO) and local officials to ensure compliance with the *National Historic Preservation Act*. Most of the homes were older than Wherry or Capehart homes and thus did not fall within the Programmatic Agreement already developed with the Advisory Council on Historic Preservation.

Historic preservation concerns at Fort Belvoir focused mainly on Park Village, a neighborhood

consisting of what Casey Nolan of Clark Pinnacle described as “Sears kit homes ... that were intended to be temporary homes.”¹⁴⁰ The initial CDMP proposed demolishing and replacing all existing structures, but the SHPO rejected that plan. In an attempt to compromise, the partnership suggested a plan similar to that proposed for another Fort Belvoir neighborhood, Jadwin Loop. There, Clark Pinnacle planned to demolish and replace most historic houses with new homes that would have a similar look and “feel,” while keeping and renovating a few of the remaining World War I-era craftsman homes.¹⁴¹

However, the Virginia SHPO, Fairfax County, and local preservation organizations all opposed Clark Pinnacle’s taking this approach in Park Village. The SHPO wanted the houses renovated rather than removed. The Fairfax County Department of Planning and Zoning, the National Trust for Historic Preservation, and the Alexandria Meeting of the Society of Friends expressed even greater opposition. After reviewing the draft Programmatic Agreement, James Zook, Fairfax County’s Director of Planning and Zoning, raised several major objections, noting that the demolition of a total of 56 historic structures “will greatly and forever alter the character of the Fort Belvoir Historic District.” Demolishing the homes was “not a viable option,” Zook explained, because of Park Village’s “historic resources with settings, cultural significances and uniqueness.”¹⁴²

Likewise, the county preservation office believed that the Park Village structures deserved more attention than the homes at Jadwin Loop. Their historic importance derived from three attributes: a unique architectural/engineering style, a design by a famous architect (Horace Peaselee, who also designed the Marine Memorial in Arlington), and the fact that they were an intact

Army village representing the World War I period of Army history. Zook warned that the 1920–1921 “temporary” homes “appear to be unique to Fort Belvoir as no similar housing units have been found on other army posts.”¹⁴³ Elizabeth Merritt, deputy general counsel for the National Trust for Historic Preservation, “strongly agree[d] with” these observations, suggesting that “the Army has not provided adequate justification of the demolition of all 56 historic properties.”¹⁴⁴ Despite the concerns raised by the county and the National Trust, however, the SHPO and the partnership ultimately agreed on the original plan in the CDMP for Park Village, which involved restoring two historic homes and demolishing and replacing the remainder.¹⁴⁵ However, the agreement with the SHPO represented a reprieve for the historically significant Colonial Revival-style homes along the Potomac River, which were to be renovated. Clark Pinnacle began the renovation work in December 2004 and had renovated 47 of the 61 historic homes by April 2008.¹⁴⁶

The resolution to the historic homes issue allowed Clark Pinnacle to progress with construction at Fort Belvoir within its initial development period, including the renovations of the historic homes. By 2006, Fort Belvoir was well on its way to providing better housing for its soldiers and their families, while also becoming one of the brightest examples of RCI success. The project overcame early problems with the surrounding community and with environmental issues to win awards for its innovative Village Commons town center in Herryford Village, and this spurred the RCI program to look at partnering with AAFES at other installations. The innovations of the Fort Belvoir project clearly showcased new ways in which RCI could improve the quality of life for military families.



FIGURE 7-29. Historic home at Fort Belvoir, VA.

Courtesy of Clark Realty Capital.

FORT SAM HOUSTON (TEXAS)

While historic structures constituted just one of the challenges for RCI at Fort Belvoir, they were the main challenge at Fort Sam Houston in San Antonio, Texas. With more than 380 historic structures within the cantonment area, Fort Sam Houston was considered “the Army’s most significant historic installation.”¹⁴⁷ Although RCI partnerships had dealt with historic homes at other installations such as Forts Belvoir, Meade, and Lewis, the Army had not tried to tackle the evaluation, privatization, and renovation of an entire stock of historic homes on the scale encountered at Fort Sam Houston. Fort Belvoir, for example, had 170 historic homes, but the inventory at Fort Sam Houston more than doubled that.

Fort Sam Houston had its origins in 1876 as a 92-acre post. It gradually expanded, and between 1910 and 1941 it was bigger than any other Army installation in the United States. In 1975, the Advisory Council on Historic Preservation designated the entire post a National Historic Landmark. One report explained, “As one of the Army’s oldest installations, Fort Sam Houston boasts the largest collection of historic structures.” The historic housing was scattered throughout seven different neighborhoods on the post, five of which were considered historic and each of which “represent[ed] different eras of construction and reflect[ed] Army concepts in planning and design.”¹⁴⁸



FIGURE 7-30. Historic home at Fort Sam Houston, Tex.

Courtesy of Fort Sam Houston RCI Office.

The RCI Program Office began planning for RCI implementation at Fort Sam Houston in 2002. In 2003, the Army conducted an HMA that initially called for the construction of 409 new homes. After further discussions, though, RCI and DOD officials decided that such an expansion could not be supported financially during the initial development period. It thus reduced the requirements to construction of 181 new homes and renovation of 434 others. Given the historic character of the installation, the RFQ for the Fort Sam Houston project, issued in 2003, emphasized the need for bidders to demonstrate experience in developing and renovating historic homes.¹⁴⁹ In February 2004, the Army chose Lincoln Military Housing,

LLC, a subsidiary of Lincoln Property Company, a worldwide property development and management firm headquartered in Dallas, Texas, as the partner for the project. In March 2005 it transferred its family homes to Lincoln, including the historic structures.¹⁵⁰

In dealing with the historic homes, the Army had to follow stringent preservation guidelines because of the post's designation as a National Historic Landmark. To address the historic features as a whole and to streamline the evaluation process, RCI staff at Fort Sam Houston negotiated a programmatic agreement with the Texas SHPO and the Advisory Council on Historic Preservation that called for the installation to exert "cultural

resource stewardship" of its historic housing.¹⁵¹ The agreement was a key document because it provided guidelines for renovating or replacing historic homes and neighborhoods. Fort Sam Houston also compiled a Historic Properties Component (HPC) plan for the long-term monitoring and protection

of the historic homes. The Advisory Council on Historic Preservation certified this HPC in 2006, meaning that for the next five years the Army could use the standard operating procedures without needing to consult with the Advisory Council and the Texas SHPO about every home.¹⁵²

★ ★ ★ ★ ★ Lincoln Military Housing

Lincoln Military Housing's first RCI partnership with the Army dates to 2004, when the company won a contract to oversee military housing at Fort Sam Houston in San Antonio, Texas, one of the Army's oldest installations. Acting as both developer and property manager, the company worked closely with the Army, design subcontractors, and local organizations to develop viable budgets, plans, and schedules within the context of the community's historic status. Named for the hero of the Texas Revolution of 1836, "Fort Sam" included some of the oldest structures on any Army base in the United States. With these concerns in mind, Lincoln built and renovated 615 installation homes, each with two to five bedrooms, in villages with community centers, pools, playgrounds, and fitness centers.

The renovation of historic homes at Fort Sam Houston posed a formidable challenge. The sheer number of historic structures present on the base, 386 in all, more than doubled the total on any other RCI project. Scattered throughout seven different neighborhoods on the post, some historic homes had been constructed as early as 1881, while others dated from the 1930s. Moreover, the entire post had been designated a National Historic Landmark. Working within these constraints,

Lincoln personnel performed a delicate balancing act between providing livable homes and preserving historical authenticity. Because of the variety of these historic homes, no single approach could effectively address every issue encountered by planners and designers. Allyson McKay, Executive Director of Lincoln Military Housing, described what her staff often encountered in Fort Sam Houston's older homes: "It's funny—we can go into the same type units and the remodels were completely different in [one] house [than another] so our basic design has to be tweaked to some degree to match sometimes what's already existed."¹⁵³ From replacing old plumbing and wiring to reproducing stylistically accurate staircase spindles, the project continually tested the flexibility and creativity of Lincoln's team.

In the end, the company's exemplary work at Fort Sam Houston provided an illustration of how to approach historic homes on an RCI project. Lincoln's accomplishments included navigating tight preservation guidelines while preserving the post's historic character, not only for older homes but also for new construction, which followed architectural styles and designs that complemented the older surrounding villages. In addition, in providing homes for soldiers



FIGURE 7-31. New RCI home in a block of Garden Avenue, Fort Sam Houston, Tex.

Courtesy of Lincoln Military Housing.



FIGURE 7-32. Renovated Officers Club and grounds, Fort Sam Houston, Tex.

Courtesy of Lincoln Military Housing.

and family members with disabilities—already an important component of the project—Lincoln went beyond its requirements, converting 10 two-bedroom homes for use by “wounded warriors” returning from deployments.

Overall, while the project’s historic structures posed challenges unprecedented in the Army’s RCI program, it also offered Lincoln Military Housing an opportunity to achieve high-profile success in its service to members of the nation’s armed forces. “As a

result of a combination of circumstance and effort by the Fort Sam Houston staff,” commented Fort Sam Houston’s cultural resource management specialist David Brigham, “Fort Sam Houston’s RCI program can serve as a model for successful historic preservation of Army housing.”¹⁵⁴

Lincoln Military Housing has also been the developer and general contractor for RCI housing construction at Joint Base Lewis-McChord, Washington, in a joint venture with Equity Residential.

To manage the large stock of historic housing at Fort Sam Houston, the CDMP created three categories of historic homes (based on work to be performed) and assigned each of the 386 historic homes to one of those categories. The first category encompassed the oldest and largest houses on the installation (dating from 1881 to 1908) that were already registered as part of the National Historic Landmark District. The second category covered the Great Depression-era homes (built between 1931 and 1934) in the Gorgas and Wheaton-Graham neighborhoods. The third category included the Patch Chaffee homes, also built between 1931 and

1934, which were eligible for registration as part of the National Historic Landmark District. The first two categories consisted of houses that were “well constructed and ... in generally good condition,” therefore requiring only minor renovation. Patch Chaffee houses, on the other hand, had been considerably altered in the past and would need major renovations to restore them to something closer to their original structure.¹⁵⁵

The CDMP outlined specific strategies for achieving balance between livability and historic authenticity in these three categories of housing. Of course, no single approach could effectively

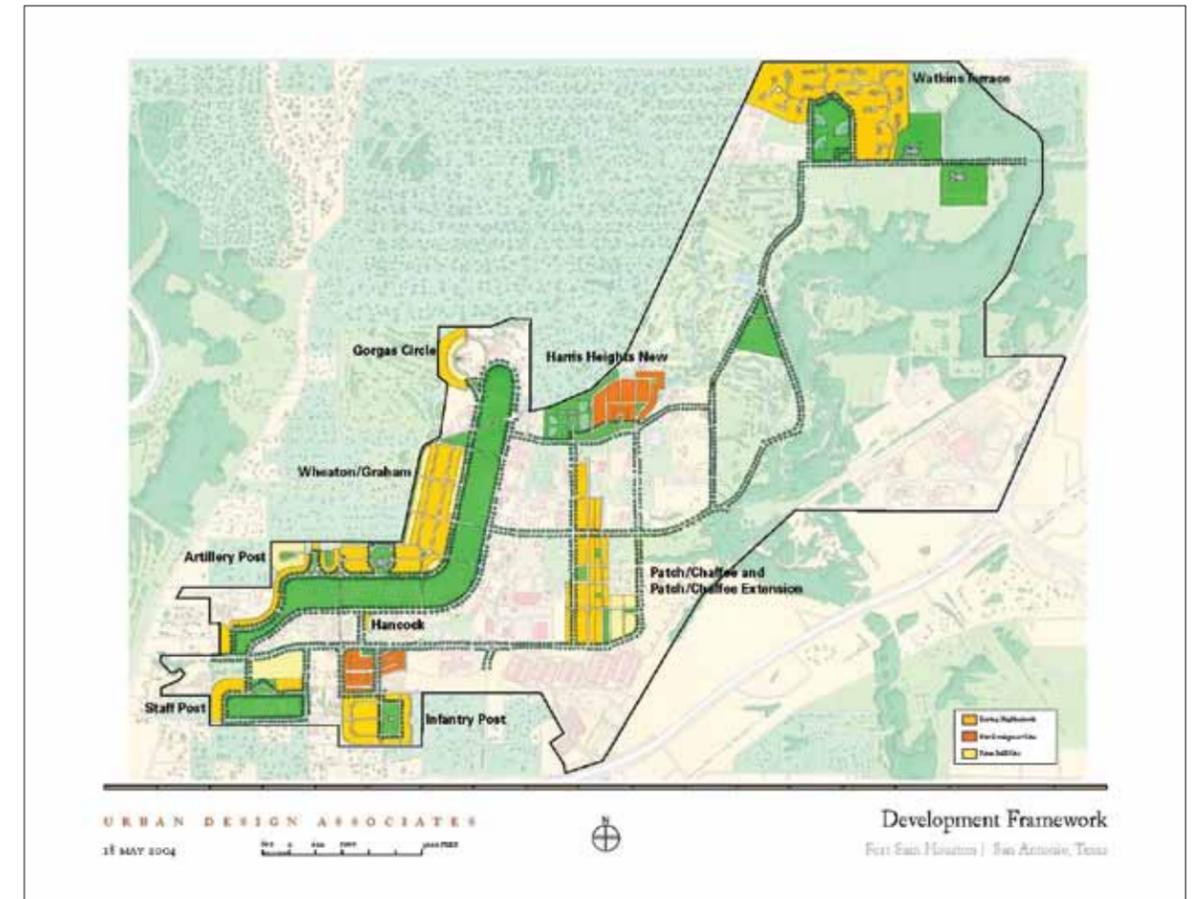


FIGURE 7-33. Design framework for neighborhood developments at Fort Sam Houston, Tex.

Courtesy of Urban Design Associates and Lincoln Military Housing.

address all of the issues posed by 386 homes ranging in age from 60 to 125 years old. In the end, the CDMP listed 22 separate design plans for privatized housing. Many included that bedrock preservation principal of a “front/back” approach. This approach meant that all work on the exterior and the front portion of the interior of the houses would focus on restoration rather than renovation, with the objective of leaving the historical integrity of the home intact. The back areas of the home—bedrooms, bathrooms, kitchens—would undergo renovations that would include replacement of old counters, plumbing, and facilities with modern

appliances and other contemporary household amenities.¹⁵⁶ Because the age of so many of the homes showed itself in deteriorating exteriors or outdated interiors (particularly in terms of wiring and plumbing), the partnership recognized that “continual reinvestment in the villages will play a critical part in the success of the Fort Sam Houston project.” Above all, though, the Army needed to ensure that the homes had a standard of “livability” that would entice soldiers and their families to move into them.¹⁵⁷

Making family housing “livable” went beyond the houses themselves. In the Patch Chaffee



FIGURE 7-34. Renovated home adapted for disabled access, Patch-Chaffee neighborhood, Fort Sam Houston, Tex.

Courtesy of Lincoln Military Housing.

neighborhood, Lincoln Military Housing and its landscape architects promoted a sense of livable community, in keeping with New Urbanism principles, by designing the neighborhood for “safety and social interaction” and ensuring that every home was within easy walking distance of a community park. Some of these parks already existed, especially in the Staff Post, Infantry Post, and Artillery Post neighborhoods. But Lincoln constructed others, including those in the Harris Heights and Watkins Terrace neighborhoods.¹⁵⁸

The emphasis on livability also extended to those households in which one or more members were disabled. As the length and casualties of the wars in Iraq and Afghanistan increased, and as more soldiers returned to Fort Sam Houston with significant injuries and disabilities, the partners adjusted the

CDMP to convert more homes for use by “Warriors in Transition.”¹⁵⁹ The initial CDMP had directed that 10 percent of Fort Sam Houston housing be accessible for soldiers or family members with disabilities, double the amount set aside in the majority of RCI projects. But going one step further, Lincoln took the lead in arranging to convert 10 two-bedroom historic homes in Patch-Chaffee for the “wounded warriors” returning from their deployments.¹⁶⁰

Lincoln worked with its project architectural firm, Fisher Heck, on striking a balance between meeting the needs of modern families and maintaining the historic features of the homes. Expanding on that point, Fisher Heck’s project manager Charles John asserted, “These are absolutely not house museums.... They are houses for contemporary military families to live in.”¹⁶¹ Even when



FIGURE 7-35. A historic home with wrap-around porches in the Infantry Post neighborhood, Fort Sam Houston, Tex.

Courtesy of Fort Sam Houston RCI Office.

the project did build brand new homes in the Harris Heights neighborhood, the designs followed “architectural styles that complement[ed] the historic character of villages like Artillery Post or Patch-Chaffee.”¹⁶² As David Brigham, Fort Sam Houston’s cultural resource management specialist, saw it, “The success of the RCI program at Fort Sam Houston is ... attributed to the selection of a developer/partner with the resources and experience necessary for a project of this magnitude.” Lincoln Military Housing demonstrated that it had “a vision for improving housing for the Fort Sam Houston soldiers and their families” and “an appreciation and understanding for preservation of the installation’s historic properties.”¹⁶³

Among the challenges of renovating the historic homes, Ron Bennett of Lincoln Military

Housing said that old wiring in the homes was the biggest issue: “We’ve found some houses were totally rewired and you go next door and they’ve never touched it.” Allyson McKay of Lincoln thought that the “most time-consuming” challenge with regard to the historic homes was replacing some of the historic features, such as wooden spindles for staircase banisters. Lincoln eventually had to lathe the spindles on site because it could not find suitable replacements elsewhere.¹⁶⁴

A problem of a different kind was partly a product of the project’s success. As more of the historic home restorations were completed, RCI staff began to see competition develop among the officers for the grand historic homes that dated to the 1880s. On most installations, senior military personnel—designated as key and essential



FIGURE 7-36. Family members out for a stroll in a new RCI neighborhood at Fort Hood, Tex.

Courtesy of Lend Lease.

persons—had first choice and generally chose the larger and more spacious historic homes. Fort Sam Houston’s designation as the home of the Army Medical Command and the headquarters for other military forces meant that many key and essential personnel sought housing on the base, and they all wanted the best historic homes. If such homes were not available and RCI staff had to assign officers to other neighborhoods, problems developed. As Pat Baker, RCI Program Management Specialist, reported, “Because we have an overlap, there’s seven to nine officers that live in new homes [rather than the historic homes] because of the breakdown of the rank.” However, “Some want the historic homes and then they don’t want anything but that one home.” RCI and Lincoln personnel did their best to satisfy expectations, but at times some majors, colonels, and generals expressed displeasure.¹⁶⁵

For the most part, Lincoln successfully dealt with the historic home issue and effectively produced renovated and newly constructed homes without exceeding its budget. In fact, because of

the sheer number of historic homes on the installation, many consider Fort Sam Houston to be the best example in the RCI system of how to deal with historic homes. According to David Brigham, “As a result of a combination of circumstance and effort by the Fort Sam Houston staff, Fort Sam Houston’s RCI program can serve as a model for successful historic preservation of historic Army housing.”¹⁶⁶ The project demonstrated that RCI personnel can work successfully with SHPOs and the Advisory Council to reach appropriate solutions for historic home renovations.



Many more installations than the five discussed here traveled down the RCI path between 2002 and 2006. Former RCI program director Spigelmyer pointed out that in 2004 alone, the Army had privatized 11 Army installations, totaling 17,000 homes. He also noted that by 2005, the federal government had leveraged \$600 million of its own money into \$7.9 billion contributed by the private sector for the construction of new and renovated Army homes. “Never in our wildest dreams did we expect this favorable of a leverage factor,” Spigelmyer declared.¹⁶⁷

From 2002 through 2006, the Army made awards to nine different private partners for 23 RCI projects (dates of transfer to partners noted):

- Fort Bragg, North Carolina (Picerne Military Housing, August 2003)
- Presidio of Monterey/Naval Postgraduate School, California (Clark Pinnacle, October 2003)
- Fort Stewart/Hunter Army Airfield, Georgia (GMH Military Housing, November 2003)
- Fort Campbell, Kentucky (Actus Lend Lease, December 2003)
- Fort Belvoir, Virginia (Clark Pinnacle, December 2003)
- Fort Irwin/Moffett Federal Airfield/Parks Reserve Forces Training Area, California (Clark Pinnacle, March 2004)
- Fort Hamilton, New York (GMH Military Housing, June 2004)
- Fort Detrick, Maryland/Walter Reed Army Medical Center, Washington, D.C. (GMH Military Housing, July 2004)
- Fort Polk, Louisiana (Picerne Military Housing, September 2004)
- Fort Shafter/Schofield Barracks, Hawaii (Actus Lend Lease, October 2004)
- Forts Eustis/Story, Virginia (J.A. Jones, December 2004)
- Fort Leonard Wood, Missouri (American Eagle Communities, March 2005)
- Fort Sam Houston, Texas (Lincoln Military Housing, March 2005)
- Fort Drum, New York (Actus Lend Lease, May 2005)
- Fort Bliss, Texas/White Sands Missile Range, New Mexico (GMH Military Housing, July 2005)
- Fort Benning, Georgia (Clark Pinnacle, January 2006)
- Fort Leavenworth, Kansas (Michaels Military Housing, March 2006)
- Fort Rucker, Alabama (Picerne Military Housing, April 2006)
- Carlisle Barracks, Pennsylvania/Picatinny Arsenal, New Jersey (American Eagle Communities, May 2006)
- Fort Gordon, Georgia (GMH Military Housing, May 2006)
- Fort Riley, Kansas (Picerne Military Housing, July 2006)
- Redstone Arsenal, Alabama (Redstone Investments, October 2006)
- Fort Knox, Kentucky (Actus Lend Lease, December 2006)¹⁶⁸

Some of the installations involved in these projects were large posts, such as Fort Bragg, North Carolina; Fort Campbell, Kentucky; Fort Polk, Louisiana; Fort Bliss, Texas; Fort Benning, Georgia; and Fort Riley, Kansas. Others were much smaller, a group that included Fort Hamilton, New York;

Carlisle Barracks, Pennsylvania; Picatinny Arsenal, New Jersey; and Red Stone Arsenal, Alabama. Some were in rural areas, such as Fort Polk, while others were in urban locations, such as Fort Hamilton, located in New York City. Many of these were privatized as single RCI projects, but some, such as Carlisle Barracks, Picatinny Arsenal, and Forts Eustis/Story, Virginia, had to be combined to make RCI work. Some installations had a long history, such as Fort Leavenworth, Kansas, which was the “oldest active Army post west of the Mississippi River” (established in 1827).¹⁶⁹ Others were relatively new, such as Fort Irwin, California, which had been established in the 1940s. RCI followed its own unique path at each base. Yet the increasing standardization of the program meant that RCI projects had achieved a certain maturity.¹⁷⁰

CONCLUSION

From 2002 through 2005, the RCI program expanded dramatically. During that period, the Army privatized family housing at 26 installations and, with its private development partners, built 3,940 new homes and renovated 6,192 others. RCI projects were due to begin at seven additional installations in FY 2006, and the Army anticipated privatizing all the remaining bases by the end of FY 2010. In addition to family housing, the Army executed its first UPH project for senior single soldiers at Fort Irwin. As an article in *Defense Communities* explained, “No other Army Quality of Life program has touched more Soldiers and their families than the privatization of family housing in the United States.”¹⁷¹

As this expansion occurred, the RCI program, on strong ground due to the success of the pilots and support from Congress and high Army officials, tried to streamline processes and make the program more efficient. Providing guidelines on environmental sustainability and construction

standards was part of this, as was enacting a two-step RFQ and issuing RFQs for geographic groupings, rather than for individual projects/installations. Additional training for staff at both RCI headquarters and at bases was also important.

As the RCI program strove to transform family housing throughout the Army, officials released solicitations for projects at installations with a much wider range of characteristics and housing requirements than the four pilot projects exhibited. From 2002 through 2005, the Army successfully launched RCI projects at small installations, at isolated bases, at installations with a large historic housing footprint, at purple bases with large civilian populations, and at installations in urban or high-profile areas. Each of these projects produced new challenges and risks that had not been encountered at the pilots.

To meet these challenges, the RCI office developed a variety of innovative solutions. Jones Lang LaSalle consultants under the supervision of the lead consultant, Dr. Barry Scribner, continued their advisory and support role for the Army RCI Office, which was essential in helping the Army manage the legal and financial complexity of the newer projects. For example, to privatize small installations, RCI leadership and JLL consultants instituted a new development strategy that involved “pairing” or “grouping” several installations into one project with a single development partner. Accordingly, RCI initiated combination projects for Fort Irwin/Moffett Air Field/Camp Parks in California and Fort Detrick/Walter Reed in the Maryland/Washington, D.C., area, among others. These joint projects enabled RCI to be both effective and profitable at small installations.

The RCI program continued to produce innovations throughout this time period. Perhaps the most striking was the development of the

town center at Fort Belvoir, for which the Army partnered with AAFES to construct a hub where neighbors could congregate for both shopping and relaxation, while others lived overhead, an outstanding New Urbanist-inspired example of mixed retail and residential land use. Based on the success of the Belvoir effort, the Army negotiated an overall Memorandum of Understanding with AAFES so that they could collaborate on additional installations. Other innovations included providing wireless internet service to residents at the Presidio of Monterey and the NPS, as well as outfitting homes on these installations with study space to accommodate the needs of students. In the realm of financing, the partners on the Irwin/Moffett/Parks and Detrick/Walter Reed projects tried to develop different ways of acquiring funds for necessary construction and renovation. Although the Orion Park land sale fell apart because of environmental issues, it still indicated a new way of thinking about sources of funds for RCI, as did the RCI program’s attempts to deal with a lack of developable land at Walter Reed. Also highlighting the flexibility of the RCI program was the way in which installations integrated historic housing into projects. Especially at Fort Sam Houston, the partner successfully negotiated agreements with the SHPO and Advisory Council on Historic Preservation that maintained the historic character of the homes while enhancing their livability.

By 2005, then, it seemed that the RCI program was on a strong footing. Soldiers on several installations lived in new or renovated housing that was markedly superior to what was available before the program, while developers continued to generate new ideas about how to enhance a sense of community in their projects. The program did not yet extend to all the installations in the United States, but it was well on its way.

ENDNOTES TO CHAPTER 7

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FIGURE 8-1. Construction workers installing energy-producing photovoltaic film on the roof of a new Army RCI home in the Bougainville Community, Aliamanu Military Reserve, part of Actus Lend Lease's Island Palm Communities in Hawaii.

Courtesy of Lend Lease.



CHAPTER EIGHT

The Evolution of the RCI Program, 2005–2007

As privatization took place at different installations, changing assessments of the Residential Communities Initiative (RCI) program at the national level and within the U.S. Army significantly affected the program's shape and structure. The original *Military Housing Privatization Initiative* (MHPI) legislation capped family housing and unaccompanied personnel housing privatization spending at \$850 million and \$150 million respectively. In 2004, the Congressional Budget Office (CBO) announced that private industry contributions, which the CBO had recently started counting toward the caps, would put the privatization program over the limit. Based on the CBO's determination, U.S. Department of Defense (DOD) officials attempted to muster congressional help to eliminate the cap, so that RCI and other privatization programs could proceed. The CBO's estimate of RCI expenses foreshadowed the Office of Management and Budget's (OMB) changing opinion about how RCI projects should be scored, an issue that

had the potential to disrupt the flexibility of the RCI program. As discussions with the OMB took place, the Army had its own internal debates as to whether the RCI program should continue to operate under the Office of the Assistant Secretary of the Army for Installations and Environment or function under the Office of the Assistant Chief of Staff for Installation Management. By 2008, although the RCI program still faced significant challenges, it seemed to have garnered enough support—from Congress, from military leaders, and from private industry—to ensure that it would remain a viable program well into the future.

SCORING ISSUES

In 2004, the RCI program faced a new hurdle that threatened to disrupt or even halt new privatization projects. The dilemma involved the amount of money the military could legally spend on privatization of housing under the MHPI authorities. The original MHPI legislation, signed into law



FIGURE 8-2. RCI-built homes in the Heritage Heights neighborhood of Carlisle Barracks, Pa.

Courtesy of RCI Office.

in February 1996, included a ceiling on the housing privatization funds that Congress could appropriate. Congress had set the spending cap at \$850 million for family housing and \$150 million for unaccompanied personnel housing (UPH) as protections in case the program failed or the money was being spent inappropriately.¹

In 2003, the caps became an issue because the CBO altered the scoring methodology, which determined which project funds should count against the caps. Up until 2003, CBO scored only those appropriations that funded the “government’s contribution to each privatized housing project.” Beginning in 2004, however, the CBO would score all the “estimated benefits that accrue to the Government over time,” which included “all of a private partner’s investment in a family housing project.” Consequently, Fiscal Year (FY) 2005 MHPI family housing projects, estimated

by the Office of the Secretary of Defense (OSD) to count as \$82.7 million against the cap, would, under the CBO’s new formula, instead be scored at \$7.3 billion.²

In addition to exceeding the authorized cap by a large margin, this method of scoring, according to an Army information paper, “could kill the Military Housing Privatization Initiative because the program would not offer any [budgetary] advantage over traditional MILCON [Military Construction].” Army officials, who arguably had the most to lose because the Army’s RCI program had proceeded further than that of most of the other services, contended that the money borrowed by the private partner to pay for initial construction was not government spending because the Army was “strictly a limited partner, without a management role in the partnership.” The partner, not the government, bore the financial risk.³

These arguments failed to convince the CBO. As a result, DOD officials took their case to Congress, sending information bulletins to congressional members, pointing out which congressional districts had installations that would lose privatization projects. Several RCI projects that were in the planning stages would be affected by the CBO’s decision: Fort Bliss, Texas; Fort Sam Houston, Texas; Fort Gordon, Georgia; Fort Benning, Georgia; Picatinny Arsenal, New Jersey; Fort Rucker, Alabama; Redstone Arsenal, Alabama; Fort Drum, New York; Fort Knox, Kentucky; Fort Leavenworth, Kansas; and Carlisle Barracks, Pennsylvania.⁴

On the other side, the CBO argued that a “primary purpose of the federal budget is to measure the amount of resources the government draws from the economy ... [so] the budget should be inclusive, measuring all governmental activities, not just liabilities.” The CBO defined MHPI privatization projects as “governmental activities” because, first, “The government exercises substantial control over the project,” and, second, “The government is the dominant or only source of project income.”⁵ It was the CBO’s position that all costs connected with military family housing should be treated as governmental investments because the government “controls the ventures and ultimately will own the housing.”⁶ Defense Department officials tried to rebut the latter claim by contending that the Army “divests itself of housing rather than obtains housing.”⁷ Philip Grone, Assistant Deputy Undersecretary of Defense for Installations and Environment, simply called the CBO’s position “fundamentally flawed” because privatized housing was not a government venture.⁸

According to Don Spigelmyer, who had had a long history with privatization even before he became executive director of RCI, the scoring deadlock went back to the passage of the MHPI

legislation. He noted, “The Congressional Budget Office has not been a big supporter of [privatization]. They’ve always felt these [projects] are too governmental in nature.” Because of this, Spigelmyer compared the CBO to “a dog barking the whole time and trying to get in under the fence.” The CBO saw the cap as a way to “get in under the fence,” Spigelmyer observed, which is why it was requiring the scoring of all costs.⁹ At the end of December 2003, Robert Helwig of the OSD told Spigelmyer that CBO officials agreed with the main goals of RCI but were “simply budget purists who want to cover all government obligations up front.” Because of that, Helwig accurately predicted, “I think raising the cap will be the central issue for the next 6 to 12 months.”¹⁰

In March 2004, at a House Military Construction Appropriations subcommittee hearing on family housing privatization, U.S. Representative Joseph Knollenberg (R-Michigan), who had assumed the chairmanship from David Hobson, observed that the cap problem had already reached “crunch time” for the RCI program. He called a hearing to discuss the situation. At the hearing, Knollenberg and a number of his colleagues, including U.S. Representative Chet Edwards (D-Texas), considered a legislative solution to the problem, believing that the cap was “too low right now, far too low.” However, obtaining the new legislation would be a lengthy process that might not be concluded before the DOD reached the spending limit, and if that happened the remaining privatization projects would have to be put on hold.¹¹

Meanwhile, U.S. Representatives Isaac Skelton (D-Missouri) of the House Armed Services Committee and Solomon Ortiz (D-Texas) of the House Subcommittee on Military Readiness lamented that a Republican Congress had missed the opportunity to adjust the cap in its 2003 budget



FIGURE 8-3. Former Deputy Secretary of Defense Paul Wolfowitz (left) with former Secretary of Defense Donald H. Rumsfeld at the Pentagon, June 2010.

Photograph by Cherie Cullen. Courtesy of U.S. Department of Defense.

preparation. Skelton and Ortiz also complained that the Republican-controlled House had refused to influence or push the CBO on the cap issue, “sounding the death knell for the MHPI program.”¹² The statements of the two Democrats caused Deputy Assistant Secretary William Armbruster to remark, “[It is] unfortunate that the Cap issue is now becoming a partisan one!”¹³

In the summer and early fall of 2004, partisan flare-ups over the cap issue increased. A June editorial in the *Army Times* called RCI “a Political Pawn” and blamed the House Budget Committee for not resolving the issue because it was “seeking to look tough on spending in an election season after three years of helping sail the nation into a sea of record red ink.”¹⁴ High-level DOD leadership

also entered the debate. In July 2004, Deputy Secretary of Defense Paul Wolfowitz wrote that the DOD “strongly supports raising or eliminating the budget authority limitation for housing privatization.” If such actions were not taken, Wolfowitz continued, developers would not be able to maintain construction and renovation schedules and, as a result, “the build-out in new construction and renovation may be stretched from years to decades.” Wolfowitz also opined that the CBO “greatly exaggerates the risk to the government.”¹⁵

In September 2004, the Bush administration threw its support behind the Defense Department’s position, urging both parties in Congress to pass S. 2674, a version of the *Military Construction Appropriations Bill for FY 2005* that contained

language raising the privatization cap to \$1.85 billion.¹⁶ That bill, however, would have provided only temporary relief for RCI and other privatization programs because, without a change to the CBO scoring stance, family housing funding would quickly reach the new cap. Fortunately, Congress passed the *National Defense Authorization Act for FY 2005* in the fall of 2004, and that bill removed the MHPI caps altogether. President Bush signed the bill into law on October 28, 2004. Although Congress had removed the caps, the new CBO scoring rules remained in place, ensuring that scoring would continue to be a stumbling block for the RCI program.¹⁷

In 2004, various changes were proposed for the way in which privatization should be scored. OMB officials asserted that the 1997 Raines memorandum stipulated that the OMB would periodically review and adjust its scoring guidelines. Joshua Bolten, director of the OMB, especially wanted to see RCI scoring changed because he believed that the initiative really was a government venture, not a private one. He originally proposed that, at the end of FY 2007 (when the DOD was supposed to have all inadequate housing on U.S. military posts eliminated), the OMB begin scoring at 100 percent up front any limited liability corporation (LLC) or partnership that took part in privatization. However, the OSD objected to this timing. The two sides eventually compromised on implementing the new policy at the end of FY 2010, to coincide with a revised DOD goal of eliminating inadequate housing by 2010. Accordingly, Bolten issued a memorandum on August 2, 2005, stating that “after September 30, 2010, new projects proposing the use of a co-owned LLC will be scored under traditional scoring rules as a governmental activity.” In addition, if any existing LLC should need additional loans



FIGURE 8-4. Community gardening project at RCI development at Fort Campbell, Ky.

Courtesy of RCI Office.

after September 30, 2010, “The borrowing will be scored under the traditional scoring rules, regardless of the borrowing purpose.”¹⁸

Key players in both the OSD and the RCI program worried about the effects of postponing scoring changes until 2010. Joseph Sikes, head of the OSD’s Housing and Competitive Sourcing office, protested, “If [Bolten] had written that memo back in the beginning, we wouldn’t have done any project.”¹⁹ William Armbruster also objected, explaining that the policy would become an obstacle “if we want to rework the scope, restructure the project at all.” He believed that the Army would have to “get some relief from [the decision] if we’re going to take advantage of what this LLC program allows us to do.”²⁰ Jones Lang LaSalle (JLL) consultant and former Army Family Housing director Dean Stefanides agreed: “We will have to do battle again



FIGURE 8-5. View of neighborhood on the Aliamanu Military Reserve, Hawaii, prior to the start of the RCI project there.

Courtesy of Lend Lease.

to get this new policy changed.”²¹ Stefanides proved to be correct. An August 13, 2010, letter from the OMB to Under Secretary of Defense Dorothy Robyn stated, “In light of the fact that other more purely private military housing projects still receive scoring exceptions and the fact that the goal of eliminating inadequate U.S. housing has almost been reached, there is no longer a compelling reason for the special scoring of LLCs.”²² The OSD continued to negotiate with the OMB for favorable scoring treatment of LLCs and received a ruling in December 2010, via the budget-passback language, which indicated that “Existing projects with the co-owned LLC management structure may continue to use private financing without the borrowing being scored for expansion and recapitalization of existing housing projects.”²³

However, this authority was limited just to family housing projects. It did not include incipient UPH and Privatization of Army Lodging

(PAL) (on-post transient lodging) programs, to which the Army was committed. Negotiations between the OSD and OMB to develop permanent scoring guidelines for all MHPI projects continue as of this writing.

In the meantime, the Army realized that an organizational structure that was already in place at a few of its RCI projects could serve as a template for reducing potential scoring implications for RCI projects. The Army had implemented a two-tiered LLC at Fort Polk, the Presidio of Monterey, Fort Irwin, and Fort Leavenworth to enhance the ability of the projects to “sell” historic tax credits or depreciation. In one of the tiers, the Army is not a part of the LLC. Therefore, future financings could be conducted through this branch of the organization. Many RCI projects began to look to this model, just in case the OMB declined, at some point in the future, to allow favorable scoring treatment for co-owned LLCs.

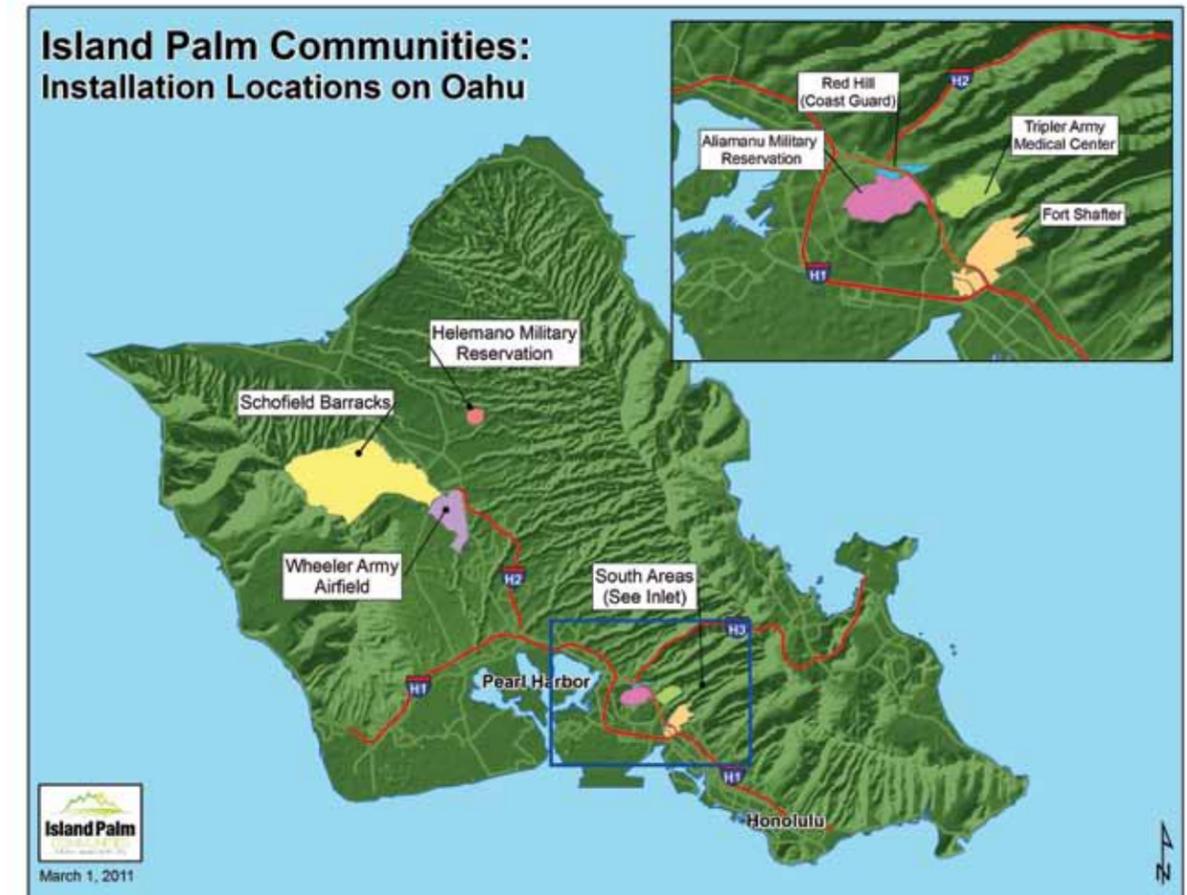


FIGURE 8-6. The Hawaii RCI project encompassed a wide variety of installation and housing types spread around the island of Oahu.

Courtesy of Lend Lease.

ARMY HAWAII FAMILY HOUSING

While the OMB, the DOD, and Congress wrestled with the issue of scoring military housing privatization projects, the RCI office, JLL consultants, and private developers continued to create innovative financial structures for privatization projects around the country. The most noteworthy example was the financial arrangement negotiated with Actus Lend Lease for the Army Hawaii project, which included family housing at Fort Shafter, Schofield Barracks, Helemano Military Reservation, Wheeler Army Air Field, and other, smaller installations on the island of Oahu. The

August 2003 project award to Actus Lend Lease was remarkable because of the large size of the deal, which carried bonds of \$1.6 billion, and the innovative financial structure, which had an unusually high variable debt level of 30 percent for the project. The high variable debt level has resulted in significant savings in interest since the partnership agreement between the Army and the developers was signed in July 2004.²⁴ The inventive approach earned recognition from *Project Finance* magazine, which awarded the Hawaii RCI project the 2005 “Public Private Partnership Deal of the Year” award. The *Project Finance* article describing



FIGURE 8-7. New home construction in one of the Hawaii project neighborhoods.

Courtesy of Lend Lease.

the award remarked, “The Army Hawaii Family Housing financing is a perfect marriage of the possibilities inherent in US financial engineering and capital markets capabilities, and practices in accommodation outsourcing that have become common in the UK. It comes from a line of projects dating back to 1998, but is the most ambitious deal yet attempted.”²⁵

The Hawaii RCI project was by far the “largest and most complex privatization project deal structure to date.”²⁶ While most RCI project deals that closed by 2006 had not been valued at more than \$300 million, the size of the initial 10-year development plan for Hawaii was \$1.6 billion. Hawaii RCI project team members, along with Actus Lend Lease staff, JLL consultants, and financial advisors from Bank of America, Goldman Sachs, and JP Morgan, worked together to create a unique

financial structure based on “approaching as many markets as possible and tranching the debt in a mixture of wrapped and unwrapped, and floating and fixed rate notes ... [and] included the use of credit-linked certificates to reinvest the proceeds of the bond issue.”²⁷ The credit-linked certificates offered the partners the benefits of “superior returns for about the same risk profile.”²⁸

Ambitious financing was not the only way in which the Army’s Hawaii project broke new ground. Island Palm Communities, the public-private partnership, raised the bar for building environmentally sustainable communities. Project planners for Island Palm Communities and RCI staff for Army Hawaii pushed farther ahead of a trend, seen at many other RCI projects at that time, to develop ecologically sustainable neighborhoods. In fact, the Simpson Wisser neighborhood at Fort

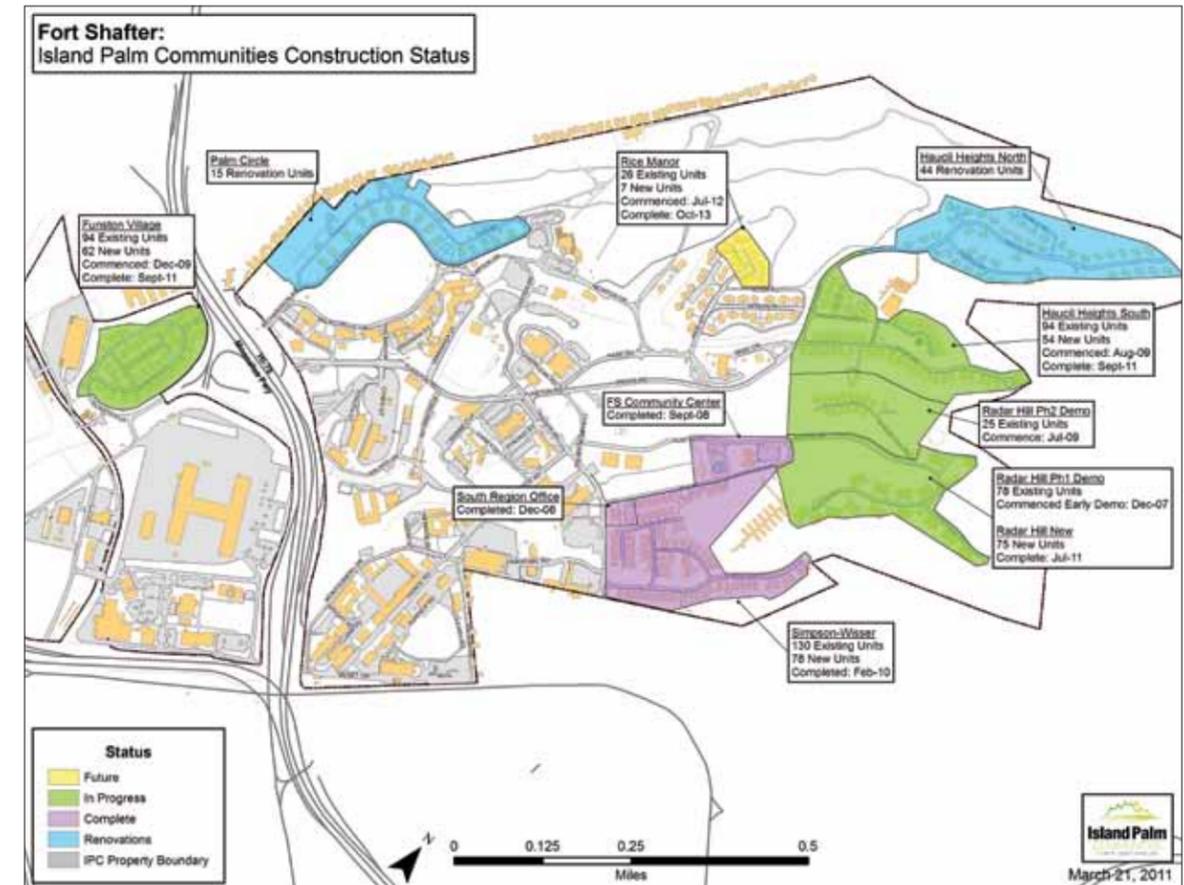


FIGURE 8-8. Layout and construction status for family housing neighborhoods at Fort Shafter, Hawaii.

Courtesy of Lend Lease.

Shafter served as a pilot in the U.S. Green Building Council’s project called Leadership in Energy and Environmental Design for Neighborhood Development, which aimed to establish guidelines for the first national “green ratings” for entire neighborhoods. A recent article about the project called the Simpson Wisser development “possibly one of the most sustainable neighborhoods built on an Army installation.”²⁹ Simpson Wisser and other installation neighborhoods utilized a variety of energy-saving and water-conserving strategies, including the use of “rooftops, car parks, exterior walls, and water catchment systems.”³⁰

The overall scale and geographic reach of the Hawaii project were also remarkable. Island Palm Communities eventually included family housing developments on seven different installations spread around the island of Oahu. In addition to Fort Shafter, the others were Aliamanu Military Reserve, Schofield Barracks, Helemano Military Reserve, Tripler Army Medical Center, Wheeler Army Airfield, and Red Hill (a U.S. Coast Guard installation). The project, which had been transferred to Island Palm Communities in October 2004 and which closed financially in May 2005, was expected to provide 7,894 much-needed homes for



FIGURE 8-9. View of RCI housing development, with solar panels attached to the roof of each home, on the Aliamanu Military Reserve, one of several installations included in the Hawaii RCI project.

Courtesy of Lend Lease.

soldiers and their families by project completion in 2014. In 2009, the Association of Defense Communities awarded the “Most Innovative Community Project of the Year Award” to Army Hawaii Family Housing, recognizing the project’s approach to “providing residents with modern and interactive community experiences that foster participation and belonging, as well as embodying sustainable living principles.”

THE 2007 REORGANIZATION OF RCI

The Hawaii project was just one (albeit one of the largest) of the accomplishments of Army housing privatization during this period. But in some ways, the RCI program became a victim of its

own success. In 2006 and 2007, the Army awarded an additional five RCI projects—Fort Lee, Virginia; West Point, New York; Fort Jackson, South Carolina; Fort Sill, Oklahoma; and Forts Wainwright/Greely, Alaska—bringing the number of awarded projects to 32 (see appendix). As the RCI program continued to expand, some Army officials believed that it had matured to the point where it did not need the protection of, or ready access to, the Department of the Army Secretariat. At the same time, the Army was trying to streamline installation management. In October 2006, the Army redesignated the Installation Management Agency (IMA) the Installation Management Command (IMCOM). Centralizing installation functions



Actus Lend Lease

Actus Lend Lease was involved in the Army’s RCI program nearly from the beginning. In 1999, Actus Corporation joined forces with several other private organizations—Lend Lease, First National Bank of Chicago, and Connell Finance—to form Actus Lend Lease. Independently, each company lacked the capability to respond to the need for better military housing. But together, in partnership with the Army, the consortium oversaw seven military housing projects, providing more than 10,000 new homes and more than 3,500 renovations. In 2011, the company changed its name to Lend Lease.

In 2000, Actus Lend Lease won a \$289 million contract with the Army to renovate and expand a housing community at Fort Hood, one of the four original pilot projects of the RCI program. Financial terms of the deal were finalized in New York City on September 11, 2001. At Fort Hood, the partnership between Actus and the Army was strong, in part because Actus adapted quickly to the military culture at Fort Hood, while the Army recognized that its partner came from a for-profit culture. Both sides embraced the idea that their partnership was more than a simple contractual relationship. Fort Hood Family Housing’s accomplishments in building new homes and forging a collaborative partnership at Fort Hood went a long way toward confirming the viability of the RCI program. In 2011, Fort Hood Family Housing became the largest green community in Texas, receiving a certification from the U.S. Green Building Council for achievement in sustainable homebuilding and design.

Following the Fort Hood project, Actus Lend Lease successfully tackled privatized family housing developments at a number of other military



FIGURE 8-10. An Actus Lend Lease leasing consultant talks with a new resident.

Courtesy of Lend Lease.

installations, starting with Fort Campbell Family Housing (Kentucky) and then Army Hawaii Family Housing, the largest RCI project, which calls for 7,894 homes by 2015. Between 2003 and 2007, the company also oversaw developments at Fort Drum (New York), Forts Wainwright and Greely (Alaska), and Fort Knox (Kentucky). In these projects, the company sought to be sensitive to local considerations. At Alaska’s North Haven Communities, for example, Actus built new homes according to the arctic construction recommendations endorsed by the Cold Climate Housing Research Center, a local nonprofit organization. In addition, Actus’s design for Alaska’s Fort Greely blended natural and architectural elements by incorporating river-rock masonry among log-style homes. New York’s Fort Drum Mountain



FIGURE 8-11. Ribbon-cutting ceremony for Actus Lend Lease–built homes at Fort Campbell, Ky.

Courtesy of RCI Office.

Community Homes—part of a pilot program offering apartment housing for single service members—was dedicated to the 10th Mountain Division, the renowned Army ski troops of World War II who later pioneered the recreational skiing industry in the United States. The company's projects have also provided a variety of local employment opportunities.

Actus Lend Lease, through its RCI partnerships with the Army, has focused on providing comfortable



FIGURE 8-12. Two young Fort Knox, Ky., residents at an Actus Lend Lease–sponsored event.

Courtesy of Lend Lease.

new family housing construction and designing places that foster community growth. “Not only are we building and maintaining homes for our well-deserving service members and their families, but we are creating entire communities with splash parks, pitch and putt greens, dog parks, and a plethora of community activities.... We have the opportunity to have a large impact on our residents and their overall living experience.”³¹

under IMCOM led officials to explore a reorganization of RCI administration and oversight.

In June 2006, the Secretary of the Army and the Chief of Staff of the Army had directed the Office of the Deputy Under Secretary of the Army for Business Transformation to examine the distribution of installation management work within the Army. Known as the Installation Management Study, or IMS, this study examined the workload of the Office of the ASA, I&E. In the words of Assistant Chief of Staff for Installation Management (ACSIM) Lieutenant General Robert Wilson and Assistant Secretary of the Army for Installations and Environment Keith Eastin, the study team concluded that the Army should “realign the RCI

Executive Director to head the OACSIM [Office of the Assistant Chief of Staff for Installation Management] Installation and Housing Directorate, keep the RCI team intact, and move the RCI team to OACSIM.”³²

Meanwhile, the Office of the Deputy Assistant Secretary of the Army for Privatization and Partnerships was sponsoring a Lean Six Sigma study to examine its own efficiencies. Lean Six Sigma is a methodology to increase management efficiency that was adopted from the automobile industry. Its goal in this case was “to streamline bureaucracies and processes ... within the Army way of doing business.”³³ Essentially, the study examined the functions of the Deputy Assistant

Secretary's office to see where efficiencies could be introduced. Before the Lean Six Sigma process had concluded, the Army issued the IMS and directed the Deputy Assistant Secretary, as part of Lean Six Sigma, to reorganize the RCI program according to the IMS recommendations. William Armbruster thus worked with the RCI Director Don Spigelmyer and the Principal Deputy Assistant Secretary of the Army for Installations and Environment Geoffrey Prosch to develop the best process for moving RCI into the OACSIM.³⁴

In the spring of 2007, Armbruster's office unveiled its reorganization plans. Rather than follow the initial IMS suggestion to transfer all of the RCI Program Office to the OACSIM, the plan proposed splitting the program in two. Some RCI personnel would go to the OACSIM and be responsible for asset management and supervision of RCI projects and operations. Others would stay within Armbruster's office and be responsible for overseeing the entire RCI portfolio, including interacting with Congress and setting overall policy. The plan provided that when an installation's family housing units were transferred to the partner, the Office of the Deputy Assistant Secretary would cede management and oversight of the individual project (that is, an asset) to the Asset Management team within the Public-Private Initiatives Division of the OACSIM. This team would then have “direct interaction with Garrison Commanders and the partners and service providers to ensure obligations under the terms of the business agreements are met.” The team would also provide recommendations to Deputy Assistant Secretary Armbruster for major privatization decisions and policies. The ultimate overseer for these major decisions and policies would be the Portfolio Management team within Armbruster's office, which was “the proponent for business policy.”³⁵ JLL continued to serve

as the Army's MHPI advisor, working for both organizations.

Although some still wanted the entire RCI program to fall under the OACSIM, Army officials accepted Armbruster's recommendations and kept a contingent of RCI personnel under the Secretariat. Yet many within the RCI Program Office were not pleased with the splitting of the program. Some thought that RCI needed to be kept whole because “staffing is not robust enough to separate project implementation duties from PAM [Portfolio and Asset Management] duties.” Others argued that direct access to the Assistant Secretary was still necessary because “political sensitivities continue to require senior Army leadership involvement.”³⁶ Still others wondered whether placing part of the program under the OACSIM bureaucracy would stifle both innovation and efficiencies. In Spigelmyer's opinion, “If we had been under the Army staff for a lot of this program, we would never [have] been where we're at.”³⁷ On the other hand, proponents of the change believed that the transition was necessary, asserting that “If the project continues at the Army Secretariat level, it will be difficult to develop local, subordinate command and installation competence.”³⁸

The actual reorganization occurred in the late summer of 2007. At that time, Don Spigelmyer departed as executive director of the RCI Program. “I retired because of this reorganization,” Spigelmyer said. “I could not support splitting the RCI team or moving part of the function to the Army Staff. I felt it would add bureaucratic layers, duplicate effort, and diminish the expertise that had taken over a decade to acquire.”³⁹ He added, “In essence, I thought it was a dumb decision then and I still think it is a dumb decision.”⁴⁰

Ivan Bolden became head of the Public-Private Initiatives and Competitive Sourcing



FIGURE 8-13. Ian “Sandy” Clark, deputy chief of the Army’s Public-Private Initiatives and Competitive Sourcing Division in 2008, speaking at a Professional Housing Management Association training session. Curt Savoy and Debbie Hutton are seated at right.

Courtesy of PHMA.

Division within the Directorate of Installation Services in the OACSIM, which became responsible for the RCI program’s asset management responsibilities. Ian “Sandy” Clark, the architect of PAM, was appointed deputy chief of the division. Within Armbruster’s office, Thomas Kraeer took responsibility for portfolio management and Rhonda Hayes led the transaction management function (including restructurings and financial transactions). At the end of 2008, Clark reported that the transition was “working well,” although there was “still a strong push to centralize everything at the ACSIM in our office.”⁴¹ Upon the resignation of political appointees in the Army Secretariat on April 30, 2009, the Secretariat team reorganized again, moving from the Deputy Assistant Secretary of the Army, Energy and Partnerships to the Deputy Assistant Secretary of the

Army, Installations and Housing (now “Installations, Housing & Partnerships”) and becoming the Capital Ventures Directorate, with Rhonda Hayes as director. Although some in the RCI Program resisted the reorganization, it at least meant that the program would continue, albeit in a different form. RCI had proven its viability, and Army leaders began applying its principles to solve other installation problems.

IMPACT OF BASE REALIGNMENT AND CLOSURE (BRAC) 2005

In the meantime, the RCI program was also revising projects at numerous installations to accommodate changes introduced in the final round of the Base Realignment and Closure (BRAC) program in 2005. After the announcement of the final BRAC assignments, the Secretary

of Defense reported, “The Army is relocating the fighting force—rebasing its overseas units in the continental United States. It is rebalancing the fighting force.... The Army is becoming a far better force—a campaign-quality, Joint and Expeditionary Army with the capabilities to provide relevant and ready combat power to the Combatant Commanders from a portfolio of installations that trains, sustains, enhances the readiness and well-being of the Joint Team, and provides a platform for rapid deployment.”⁴² The BRAC announcement initiated changes that aimed to enhance the Army’s maneuvering and fighting capacities, but it also brought new challenges to Army housing privatization that would test the flexibility and responsiveness of the RCI program.

Well before the DOD’s September 2005 BRAC announcement, RCI Director Don Spigelmyer correctly understood the potential for this final round of base closures to bring major changes that would significantly impact RCI projects. He also realized that BRAC would be only the first of several significant changes that Army leadership was then considering. To address these issues as comprehensively as possible, on March 17, 2005, Spigelmyer directed the program to tackle the following:

Analyze the infrastructure and environmental conditions at selected Army installations, to support re-stationing analyses and assess maximum housing development potential and constraints. Develop a baseline for evaluating impact on family housing associated with re-stationing actions. Establish an analytical framework and baseline for evaluating potential base realignment and closure impacts. Refine the equity investment requirements associated with known/planned increases to the housing requirements consistent with the regulatory

and statutory limitations, and provide a model to address possible revisions due to future stationing decisions.⁴³

In response, program staff began to identify and prioritize RCI project locations with respect to BRAC’s likely impacts on Army family housing. The RCI staff completed these reviews on May 31, 2005, which prepared the RCI program for the coming changes. RCI staff also shared the information with BRAC teams, which were considering the various upcoming alterations to installation missions, to help inform BRAC planners about the potential need for new family housing at installations slated to grow.⁴⁴

When the 2005 BRAC announcement of installation changes arrived, it was clear that a number of the RCI projects were directly affected. The Fort McPherson and Fort Gillem, Georgia, project was cancelled prior to the selection of a developer. Fort Monroe, Virginia, was removed from the Fort Eustis and Fort Story project during the project planning phase. Fort Monmouth, New Jersey, was removed from the combined Fort Monmouth/Carlisle Barracks/Picatinny Arsenal project. In Fort Monmouth’s case, the project’s financing by potential lenders had become prohibitively expensive due to real estate speculation anticipating BRAC, prompting RCI Deputy Director Hayes to “pull the plug” on the project—wisely, as it turned out—while the BRAC announcement was still pending. Walter Reed Army Medical Center in the District of Columbia was already privatized at the time of the announced closing, but fortunately almost all of the RCI family housing was in an off-post civilian enclave that could continue to support Army residents at their new location in Bethesda. The closure of Pope Air Force Base, North Carolina, resulted in a merger of that installation’s housing



FIGURE 8-14. New housing at Fort Eustis, Va., one the RCI projects impacted by the 2005 BRAC decisions.

Courtesy of Balfour Beatty Communities.

program into the Fort Bragg RCI project, with a corresponding increase in family housing assets. The decision to make Fort Richardson, Alaska, a joint base with Elmendorf Air Force Base removed Fort Richardson from the Army's RCI project list and led to a planned merger with the U.S. Air Force housing privatization project. McChord Air Force Base followed the opposite course, as BRAC realignment created Joint Base Lewis McCord. The DOD incorporated the nascent privatization program at McChord into the existing Fort Lewis RCI, producing another joint privatized housing project, this one led by the Army. Fort Eustis and Fort Story, Virginia, became Air Force-led and Navy-led installations respectively, and Fort Sam Houston, Texas, became an Air Force-led installation. However, since the Army RCI program had already privatized family housing at Forts Lewis,

Eustis/Story, and Sam Houston, they were kept under Army oversight.⁴⁵

Two four-star commands, Army Training and Doctrine Command (TRADOC) and Army Forces Command (FORSCOM), were designated to move to Fort Eustis and to Fort Bragg. The moves required the RCI program, for the first time, to construct four-star-general officer homes. This effort would take significant coordination and would challenge the RCI team's project management skills, especially with the direct involvement of very senior Army officials in the construction plans for these new homes.

Concurrent with the release of the 2005 BRAC assignments, the Army announced plans to reorganize its entire fighting force. Called the Army Modular Force (AMF) Transformation, the plan aimed to alter the service's brigade structures in a manner that would produce significant changes at several installations. The primary objective of the AMF was to make the Army into "a larger, more powerful, more flexible deployable force."⁴⁶ In what the Army described as, "the most significant Army restructuring in the past 50 years," the AMF would convert 10 active-duty divisions operating in 2006 into "a 48 brigade combat team force" by FY 2007.⁴⁷ The AMF Transformation, and subsequent changes under the 2007 Grow-the-Army initiative, discussed at length in Chapter 9, would eventually turn Fort Bliss, Texas, into one of the largest (in troop size) installations in the nation and would also significantly increase the size of Fort Irwin, California. The reorganization forced the RCI program to reassess the housing needs at Fort Bliss, Fort Irwin, and other installations affected by the AMF plan.

LOOKING TO THE FUTURE

By the fall of 2007, the Army had used the principles of RCI to deliver comfortable, clean,



FIGURE 8-15. RCI housing at Fort Irwin, Calif., one of the installations due to grow in troop size under the Army Modular Force Transformation.

Courtesy of Clark Realty Capital.

affordable housing to soldiers and families at 28 RCI projects spread out over 35 installations. But as these projects proceeded successfully, the RCI program began to encounter some new and some not so new problems—weakening financial markets, OMB scoring issues, unaccompanied personnel housing issues, and others—that they could not have anticipated when RCI first got off the ground in 1998. Having learned to expect the unexpected, RCI officials tried to determine what issues the RCI program would have to confront in the future. One of the biggest challenges was simply ensuring that supporters did not get complacent. As Joyce VanSlyke of the Office of the Deputy Assistant Secretary of the Army for Privatization and Partnerships explained, Army leaders and other government officials tended to think that once all of the housing had transferred, there was nothing else for

the Army to do. In actuality, according to VanSlyke, just maintaining oversight of the extensive portfolio was a large undertaking: "You've got to keep close oversight on these projects and work out the challenges that come up through the system."⁴⁸ That included ensuring that new installation commanders did not suddenly make changes that would inhibit development of the program 20 or 30 years later. "If you make major changes in this year, which weren't supposed to happen until year 10 or year 20," VanSlyke stated, "you're going to impact development scope."⁴⁹ Thomas Kraeer agreed: "The main thing that we need to do is make sure that we balance the sources, the revenue coming in, and what we use that money for" because "if it gets out of balance and the uses are higher than the sources, then that money has got to come from someplace [else]."⁵⁰



FIGURE 8-16. The installation commander's RCI-built house at Camp Parks, Calif.

Courtesy of Clark Realty Capital.

Another challenge that the RCI program would face was taxation. Although some entities, such as Alameda County in California, had threatened taxation, no state or local jurisdiction had required the taxing of RCI property up to the year 2008. Yet RCI officials worried that such entities could impose taxation at any time. If that happened, they declared, detrimental effects would follow. "Up to date, we haven't been taxed for these projects, except for payment in lieu of taxes in some places," Don Spigelmyer explained in February 2007. "That's something that could change, just like in the Capehart and the Wherry program."⁵¹ If a local entity did propose taxation, Deputy Assistant Secretary Armbruster viewed it as the partner's responsibility to address the issue: "If there's an issue on taxes, the partner has got to take the lead with the local taxing authority to

deal with that."⁵² The reason for placing the onus on the partner was that the RCI program danced a fine line with taxation. Most state and county entities did not require the payment of taxes because they regarded RCI projects as governmental in nature, but the program needed Congress, the CBO, and OMB to maintain the view that these were private, not governmental, ventures. If government officials did not involve themselves extensively with taxation questions, it helped the program continue to walk the private-governmental tightrope, although it was becoming an increasingly difficult balance to maintain.

Although Congress had resolved the budgetary cap issue in 2004, the CBO's revised scoring procedures, coupled with the OMB's changing scoring ideas, threatened RCI's way of operating in the future. Leaders feared that the OMB's new

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Michaels Military Housing

Michaels Military Housing was a latecomer to the RCI Program, becoming an RCI partner firm when it received the award for the Fort Leavenworth, Kansas, privatization project in December 2004. In March 2008, Michaels added the Fort Huachuca/Yuma Proving Ground project in Arizona to its development portfolio. The company also manages privatized housing at Andrews Air Force Base in Maryland and MacDill Air Force Base in Florida. Over the course of 40 years in the business, Michaels had become one of the top 30 management and development companies in the country. When it began work at Fort Leavenworth, Michaels Military Housing faced a steep learning curve. The initial experience deficit did not prevent Michaels from incorporating innovative designs into its family housing. For instance, as noted by Ron Hansen, current president of Michaels Military Housing, the company made the Fort Huachuca/Yuma Proving Ground project one of the first RCI housing developments to depend largely on construction by local homebuilders (Arizona firms R.L. Workman Homes and Castle & Cooke), "rather than big-box or in-house construction companies."⁵³ As a result, these installations now feature beautiful new homes that were completed significantly under budget. One resident, after seeing her new home in Fort Huachuca's DeAnza Village, said, "This is the best family housing we have ever seen, and we have been in the Army 20 years."⁵⁴

Michaels Military Housing will build 200 new homes and two community centers at Fort Huachuca-Yuma Proving Ground during the project's five-year Initial Development Period and will manage an end-state total of 1,069 homes at the two installations. At Fort Leavenworth, the company has



FIGURE 8-17. Residents of DeAnza Village at Fort Huachuca, Ariz., in front of their new home.

Courtesy of RCI Office.

tackled the complex task of renovating 100-year-old historic row homes and commanders' houses, which entailed working closely with the installation's historical architect and the state historic preservation officer. They have reopened homes that are comfortable and functional for modern families but that also retain a high degree of historic integrity.⁵⁵

Because the company's mission is to improve quality of life for soldiers and their families, Michaels Military Housing has also put considerable effort into building community relationships and family support. For instance, when it observed the increasing toll that long deployments overseas were taking on families, the company started a Deployed Spouses program, in which staff of Fort Huachuca-Yuma Proving Ground Communities, LLC, and Fort Leavenworth Frontier Heritage Communities, LLC, the partner entities, assist resident families in whatever way they can.

policy would adversely affect project restructurings and they wondered how OMB Director Bolten's August 2, 2005, memorandum would impact the fledgling UPH and PAL programs. In the case of PAL (on-post transient lodging), Bolten's decision on scoring forced the Army to use just a ground lease rather than the RCI's limited liability partnership, though the process was able to move forward. Nonetheless, it was clear that RCI leaders would continue to have to come up with ways to deal with adverse scoring policies.

In general, however, the RCI program seemed well positioned to continue to supply soldiers with quality homes on installations. One reason for this was its portfolio and project management. Independent studies conducted by the U.S. Military Academy and by the U.S. Government Accountability Office (GAO) both lauded PAM. In 2005, Principal Deputy Assistant Secretary of the Army, I&E Geoffrey Prosch commissioned the U.S. Military Academy to conduct an independent examination of the PAM program. Through data analysis and interviews with private partners, RCI staff, garrison commanders, and others, the academy concluded that the PAM program was an "innovative" approach "that enables Partners to leverage Army and Partner investments and apply commercial portfolio management and real estate development best practices to deliver the best value to Army stakeholders." Specifically, the study applauded the way that PAM incorporated those best practices into all aspects of its program and how it drew on the best business models from the private sector in its financial analyses. The academy recommended that PAM enhance its training program so that it could continue to succeed but otherwise found it effective in safeguarding the Army's interests.⁵⁶ Similarly, the GAO concluded in April 2006 that the PAM program was a

"robust and comprehensive method for overseeing awarded projects." It commended the Army for its work in this area and recommended that other services, such as the U.S. Navy, take note.⁵⁷

CONCLUSION

As the RCI program continued to mature and progress, many observers felt it was increasingly unnecessary to keep RCI under the Secretariat, especially given the Army's efforts to centralize installation management under the OACSIM and Installation Management Command. These views resulted in the division of the RCI program into two halves: one under the OACSIM and the other under the Secretariat. This splitting of functions, together with the difficult timing of changes in OMB scoring, demonstrated that the RCI program still faced substantial obstacles and could potentially be derailed. For the moment, though, the future looked promising. RCI was "a huge change in the way we traditionally have dealt with our families and our soldiers," Deputy Assistant Secretary Armbruster reported in February 2007, and up to that point the change had succeeded admirably.⁵⁸

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FIGURE 9-1. New Urbanism influenced the design of Clark Pinnacle's town center development at Fort Belvoir, Va.

Courtesy of Clark Realty Capital.



CHAPTER NINE

Moving Forward Amid New Challenges, 2008–2010

By the beginning of 2008, the Residential Communities Initiative (RCI) program had made noteworthy progress in building new housing, revitalizing existing housing, and establishing world-class residential communities at installations throughout the United States. And by the end of 2008, the private partners had been selected to work on the final RCI housing privatization projects—at Fort Sill, Oklahoma; Forts Wainwright and Greely, Alaska; Fort Huachuca and Yuma Proving Ground, Arizona; and Aberdeen Proving Ground, Maryland.¹ At the same time, RCI leaders became increasingly convinced that the RCI model could help the military improve its handling of two other issues: the way in which it housed single, or “unaccompanied,” soldiers and the way in which it lodged installation visitors.

Even after a decade of many successes in family housing privatization, the U.S. Army’s RCI program still faced some of its biggest challenges to date in the period from 2008 through 2010.

Foremost among them were the adjustments and accommodations required to weather the nation’s worst financial and housing market crisis since the Great Depression and the call to respond to the changing needs of the Army organizations, soldiers, and military families as they dealt with the tremendous impact of fighting two overseas wars.

The RCI program was able to meet these challenges because of the experience the program had gained during its first eight years and the expertise of RCI staff, consultants, and partners, many of whom had received accolades for their achievements. The program as a whole received two awards in 2008, followed by awards to individual members of the RCI team. In May 2008, the Urban Land Institute gave RCI its Award for Excellence: The Americas, which was its “most prestigious recognition program.”² Then, in December 2008, the program received the Presidential Award for Management Excellence, an accolade given by the Office of Personnel



FIGURE 9-2. RCI team receiving the Presidential Award for Management Excellence in December 2008.

Courtesy of RCI Office.

Management (OPM) to Executive Branch programs that excel in management performance.³ Informed of the award on Christmas Eve 2008, Don Spigelmyer, who had served as RCI director, responded that he “couldn’t have asked for a better Christmas gift,” as the award recognized the long years of effort that he and the others in the RCI Program Office had put into it.⁴

NEW OBSTACLES FOR ARMY HOUSING PRIVATIZATION

The economic downturn that began in 2007 and accelerated in 2008 created new obstacles for RCI projects. As credit tightened and prices for construction materials rose, RCI project partners faced the possibility of default on debts or even bankruptcy, while investors became increasingly cautious about backing residential developers in the depressed housing market.

At the same time, multiple deployments of soldiers in support of the Global War on Terror and for Overseas Contingency Operations had a lingering effect on occupancy rates at RCI family housing projects and Unaccompanied Personnel Housing (UPH) projects (for both single soldiers and married soldiers who did not have their families with them). In some instances, the deployments resulted in vacancies difficult to fill, while in others, such as at Fort Stewart, early redeployments allowed projects to plan for future occupancy needs as some rotations ended while others began anew.⁵ Projects faced challenges in adapting to the fluctuations in personnel as America’s involvement in global conflicts persisted throughout the decade. Even more significant, the duration and number of deployments were placing increasing demands on soldiers’ families and on the organization as a whole. More than ever, improving the



FIGURE 9-3. Friends and family members cheer soldiers of the 4th Brigade Combat Team (Currahee), 101st Airborne Division, returning to Fort Campbell, Ky., after a 12-month deployment to Afghanistan, March 2009.

Photograph by Sam Shore. Courtesy of U.S. Department of Defense.

quality of life for families and military communities—which included better housing and supportive neighborhoods—became an important part of the Army’s mission. The RCI program and the Army’s private partners in housing privatization increased their efforts and continued to innovate to support that mission.

Similarly, changes and initiatives within the Army itself continued to reshape many RCI projects. In December 2007, on the heels of the Department of Defense’s (DOD) Grow-the-Force initiative to increase the strength of the Army, the Army issued a plan, subsequently referred to as Grow-the-Army, to activate three new troop units the following year, inclusive of 65,000 new

active-duty service members.⁶ The objectives of the Grow-the-Army initiative were to “reduce the frequencies of overseas deployments for soldiers” and to boost the Army’s force-structure growth with “the stationing of six new infantry brigade combat teams, eight support brigades ... and associated growth in smaller combat support and combat service support units.”⁷ Additionally, under Global Defense Posture Realignment, the military planned to relocate 70,000 personnel back to the United States from stations overseas.⁸ The demand for additional housing resulted in “modifications to each project’s original development scope, additional project borrowing, and ... additional government contributions to these



FIGURE 9-4. Ribbon-cutting ceremony for the opening of new homes in the Dogwood neighborhood at Fort Polk, La., one the installations that required additional housing because of the Grow-the-Army initiative.

Courtesy of RCI Office.

projects as gap funding to help build new homes for soldiers and families.”⁹

Fort Bliss, spanning the New Mexico and Texas border, provides an example of the types of circumstances that the RCI program would face at many installations as a result of Grow-the-Army and other initiatives. Between 2005 and 2012, the number of military families expected to be posted at the base would increase by approximately 38,000. To help meet the escalated demand for housing, Balfour Beatty Communities (BBC), the RCI partner at Fort Bliss, added 600 additional new homes to the construction schedule.¹⁰ Fort Carson, Colorado, was also directly affected by the Grow-the-Army initiative. It had reached its end-state goal of 2,664 homes in 2004, but new plans increased the goal to a total of 3,368 homes to accommodate the increase in force strength. By the summer of 2010, the Army had planned to invest nearly \$100 million in the additional

construction at Carson.¹¹ The Army’s new force structure requirements created a similar need for more family housing at Forts Bragg, Knox, Lewis, Polk, and Sill.¹²

Despite these challenges in the waning years of the decade, the Army remained committed, as stated in the Army Family Covenant (AFC), to “providing soldiers and their families a supportive environment where they can live and thrive.”¹³ Announced in October 2007, on the cusp of the proposed increase in personnel, the AFC was the Army’s “promise to provide balance in sustaining Soldiers and their families.”¹⁴ During a visit that month to one of the new RCI project neighborhoods at Fort Belvoir, Virginia, Secretary of the Army Pete Geren remarked that if you asked any soldier to describe what specific things make for a “good quality of life,” the answer would be, “housing, the home they live in, [and] the neighborhood they live in.”¹⁵ Secretary Geren’s



FIGURE 9-5. Soldier in the 23rd Engineer Company is reunited with his family after returning home to Fort Richardson, Alaska, from a year-long deployment to Afghanistan, 2011. U.S. Army photograph by Sgt. Tamika Dillard.

Courtesy of U.S. Department of Defense.

comment affirmed the importance of the RCI housing program particularly at a time when the duration and difficulty of fighting wars in Iraq and Afghanistan were taking a toll on the Army’s ability to retain soldiers and attract recruits. “In order to have a healthy Army, we’ve got to have healthy Soldiers and we have to have a healthy Army Family, as well.”¹⁶

2008 CREDIT AND FINANCIAL CRISES

The downturn in the national economy proved an unexpected encumbrance to the RCI program. The origins of the 2008 credit crisis that plunged the national economy into a deep recession were well documented in the federal

Financial Crisis Inquiry Report, released in January 2011. The report explained:

The crisis reached seismic proportions in September 2008 with the failure of Lehman Brothers and the impending collapse of the insurance giant American International Group (AIG). Panic fanned by a lack of transparency of the balance sheets of major financial institutions, coupled with a tangle of interconnections among institutions perceived to be “too big to fail,” caused the credit markets to seize up. Trading ground to a halt. The stock market plummeted. The economy plunged into a deep recession.¹⁷

The credit crisis and economic aftermath had serious repercussions for the Army RCI program. Direct outcomes included less funding available for new home construction and a corresponding increase in the number of homes targeted for renovation at many installations, as well as a reduced scope and fewer amenities at some of the newly awarded housing projects.¹⁸ Hardest hit were prospective housing projects, because developers struggled to obtain loans for construction and management through the domestic financial markets, which were in turmoil. In addition, developers functioning as partners on existing RCI projects began receiving lower return rates on their invested funds, which the companies needed to pay for upcoming phases of construction. Developers found that they had to pay higher interest rates because there were fewer investors interested in buying military housing bonds, and the remaining investors wanted stricter underwriting criteria for loans. As a result, developers had less money to spend on new construction and renovation than they had anticipated. At Fort Lee, for example, the developer fell \$10 million short of what it needed in loan money, forcing it to build 97 fewer new homes than its CDMP had called for.¹⁹

Of course, long before the economic turmoil of 2008, RCI program managers and advisors had spent considerable time and effort educating the financial community about the opportunities and risks of financing RCI projects. Many of the projects benefited from a favorable lending environment during the early years of the program. During the heaviest period of new Army privatization projects, roughly 2002 to 2005, government benchmark rates for 30-year bonds and London Interbank Offer Rates remained at fairly low levels compared to earlier decades. In addition, the “spread,” or risk premium, between comparatively

“risk-free” government rates and the rates that lenders demanded before purchasing bonds was also relatively low during much of this period.²⁰ As a result, plentiful investment money flowed to the best projects requiring debt financing, especially once projects were awarded favorable investment-grade ratings by the primary rating agencies (Standard & Poor’s, Moody’s, and Fitch). This favorable financing environment fell apart in 2008.

Evidence of problems began early in March 2008 with the collapse of the investment bank Bear Stearns. Turmoil and fear crept into the credit markets during the summer of 2008, making borrowing more difficult and increasing the risk premiums for financing, including financing of Army RCI projects. With the collapse of Lehman Brothers, financing for RCI projects became much more difficult to obtain. In some cases, RCI projects started with a “soft,” or operational, closing before the projects could have a “hard,” or financial closing. This again illustrated the benefits of the Army’s RCI partner structure, which retained the flexibility to make decisions to the benefit of both members of the partnership and to soldiers and families.²¹ The delays in financing RCI projects during the credit crisis affected the following projects, resulting in split operational and financial closings:

- Fort Jackson operational closing August 1, 2008; financial closing October 30, 2008
- Joint Base Lewis-McChord combined project operational closing October 1, 2008; financial closing December 4, 2008
- Fort Wainwright/Fort Greely operational closing April 1, 2009; financial closing September 28, 2010
- Aberdeen Proving Ground operational closing December 1, 2009; financial closing December 21, 2009



FIGURE 9-6. New home in the Westcott development at Joint Base Lewis-McChord, Wash., one of the installations to receive additional government funding in order to keep up with growing demand for family housing.

Courtesy of RCI Office.

- Fort Sill operational closing November 1, 2008; financial closing June 1, 2010.²²

The credit crisis certainly made borrowing more difficult, but the problems in the credit market were not limited to RCI project financing and debt. Also affected were the Guaranteed Investment Contracts (GICs), or holding accounts, that held most of the RCI projects’ invested funds in interest-bearing securities, pending their use as development and construction funds. The investment grade ratings for bond insurers and surety providers, who held important roles in guaranteeing the debt payments for RCI projects, suffered as well. Additionally, RCI projects used swap providers, similar to many municipal bond debt placements, to swap variable-rate liabilities for fixed-rate payments that helped

to lower the overall cost of borrowing. All of these providers of financial guarantees were tested during the credit crisis and faced credit rating downgrades.

The RCI program met these challenges by forcing GIC providers to post collateral when prudent, by replacing swap providers with credit-worthy financial providers, and by restructuring project financing to minimize risk to project development and construction funds. The RCI Quarterly Report in March 2010 illustrated the impact on returns of RCI project short-term invested funds:

Interest rates on Guaranteed Investment Contracts (GICs) that have been entered into since 2008 and non-GIC lockbox accounts have fallen sharply from previously achieved levels, materially reducing the amount of

interest income generated each month.

Project management teams are searching for alternative investment strategies to GICs, but options remain limited in 2010.²³

Despite the faltering economy and the military's need to restructure its financial plans, the RCI program was able to forge ahead, and successfully. In 2009, a Government Accountability Office (GAO) report found that the majority of the privatization projects exceeded the minimum occupancy rate of 90 percent.²⁴ Furthermore, in order to keep up with increased housing demands due to the large force size returning from bases abroad, the Army budgeted approximately \$585 million for developers working on five already awarded privatization projects in fiscal years 2008 and 2009.²⁵ This additional Army funding went to Forts Bliss, Bragg, Carson, and Stewart, and Joint Base Lewis-McChord.²⁶ The increased funding made available to developers on those five projects was intended to help meet the growing demand for Army housing that resulted from forces returning from abroad.²⁷

A part of the strategy for programming increased funds to specific projects was to “retrofit” housing projects after the selected developer/partner had taken over. Regulations stipulated that government investments in project partnerships were limited “to not more than 33 percent cash, or 45 percent if land or facilities are all or part of the investment, of the capital cost” of the proposed projects.²⁸ By coupling new projects with already awarded contracts, the government was able to increase overall funding to ensure that housing would be available when needed.

Fort Sill, Oklahoma, provides one example of a retrofitted contract. The financial closing of the Fort Sill privatization project was delayed for

roughly 18 months because market conditions made the proposed CDMP scope impossible to accomplish.²⁹ At the same time, the decision to move the Air Defense Artillery School from Fort Bliss to Fort Sill increased the housing requirements by another 78 homes over the original end-state of 1,650 homes. The project was finally able to reach financial closure in June 2010, due to the Army's plan to spend an additional \$20 million in Grow-the-Army funding to address the deficit in houses.³⁰ But the key to the solution was the Army's decision to couple Fort Sill housing privatization with an uncompleted project at Fort Meade, Maryland. In so doing, the government's cumulative investment was 28.8 percent, compared to 55.8 percent if the Army had programmed funds directly to Fort Sill. In that case, the investment would have been in excess of the percentage cap. In providing funds for ongoing contracts and new construction, the process of retrofitting contracts benefited both installations and military personnel.³¹

As RCI projects progressed toward the end of the decade, the program achieved significant milestones, received awards, and worked within communities to improve available housing for service members. In September 2008, four members of the RCI team—Rhonda Hayes, William Mysliwiec, Matthew Keiser, and Jim Rich—all received the Army Commanders Award for Civilian Service medal for their work on RCI's acquisition process.³² By the end of September 2008, the program was delivering more than 450 homes per month, with some projects, such as Fort Gordon, Georgia, exceeding their delivery schedules.³³ In the prior month, the Army had negotiated with the City of Seaside, California, to obtain additional land for housing at the Presidio of Monterey/Naval Postgraduate School. As part of the agreement,



FIGURE 9-7. New homes and residents in neighborhood of the Presidio of Monterey. The Army's land exchange with the city of Seaside, Calif., will allow for the construction of 400 additional home at the installation.

Courtesy of Clark Realty Capital.

the Army obtained enough land to construct an additional 400 houses, while the City of Seaside benefitted by receiving tracts of land that were formerly within Fort Ord.³⁴ By the end of 2008, RCI had delivered more than 17,000 homes while maintaining a 91.5 percent occupancy rate—on target with stated goals—while nationally the housing recession had “reached pandemic proportions, with a decline in home sales of 12.4 percent.”³⁵

In 2009, the downturn in the housing market seemed to pose a threat to the Army's RCI program at the same time as the Basic Allowance for Housing (BAH) for the year at RCI installations increased an average of 7.2 percent.³⁶ By enhancing their purchasing power, BAH increases gave service

members an advantage over others in the general housing marketplace. Program officials worried that the situation could decrease installation occupancy rates. Yet at the end of six months, overall installation occupancy had dropped just one-tenth of a percentage point, while at the same time the following year, installation occupancy had actually increased from the previous March when the concerns about the BAH increase were first raised.³⁷

While occupancy rates at the majority of Army RCI installations were at or above expectations, the military did experience some fluctuations due to extended deployments overseas. In 2009, for instance, an 82 percent occupancy rate at Fort Benning, Georgia, was credited, in part, to the duration



FIGURE 9-8. Two happy family housing residents in a neighborhood of the RCI Kalakaua Community development at Schofield Barracks, Hawaii.

Courtesy of Lend Lease.

of deployments to Afghanistan and Iraq. According to the GAO's assessment of the situation, "extended deployments prompted some family members left behind to vacate their on-installation privatized houses and move to be closer to other family members."³⁸ Conversely, service members returning home from deployments contributed to spikes in occupancy, as noted at that same base at the close of 2008. Occupancy rose 4.4 percent, largely attributed "to an increase in inbound Service members."³⁹

CHALLENGES FOR RCI PARTNERS

Because they were private or publicly traded businesses, companies partnering with the Army in the RCI program had to negotiate not only the

unexpected challenges of the credit crisis and nationwide recession, but also the instability in the American corporate world, including company takeovers and buyouts. Such was the case for one RCI partner firm in May 2008, when Balfour Beatty PLC, a global engineering, construction and investment company based in London, acquired GMH Military Housing, one of the Army's most active privatization partners. At the time, GMH Military Housing was the developer (or was about to achieve financial closure) for RCI projects at Fort Carson, Fort Stewart/Hunter Airfield, Fort Hamilton, Fort Detrick/Walter Reed Army Medical Center, Forts Eustis/Story, Fort Bliss, Fort Gordon, Fort Jackson, and the U.S. Military Academy at West Point. Although RCI privatization projects had

been transferred from one partner to another in the past, this was the first time that a partner was acquired by an outside corporation.⁴⁰ According to some Balfour Beatty managers, the transition, aside from the name change, "occurred without interruption to the military housing services and was transparent to the military families."⁴¹ Three months after the acquisition, on August 1, 2008, Balfour Beatty Communities successfully closed on new housing projects at West Point, New York, and Fort Jackson, South Carolina, projects that

transferred a total of more than 2,000 homes to new Balfour Beatty Partnerships.⁴² Looking back at the takeover and successful transition, managers at Balfour Beatty believe that it demonstrated significant strengths in the RCI program, particularly the program's "ability to adapt and accommodate to ever-changing events," which in recent years had included "projects transferring between partners, partner acquisitions, as well as financial market collapse, while continuing to provide quality housing for soldiers and their families."⁴³

★ ★ ★ ★ ★ Balfour Beatty Communities/GMH Military Housing

Balfour Beatty Communities, formerly GMH Military Housing, has been a leader in the RCI program for many years. The company has partnered with the Army on 11 different projects in a dozen states plus the District of Columbia, through projects that include more than 14,000 new or renovated homes for U.S. service members and their families. In 2002, GMH Military Housing won its first RCI contract, for Fort Stewart/Hunter Army Airfield (Georgia). Subsequently, the company was awarded two additional projects, Walter Reed Medical Center (Washington, D.C.) and Fort Detrick (Maryland), later combined into a single project, the first time two separately solicited RCI projects were combined to enhance the efficiency of both.

GMH Military Housing also took over several projects initially awarded to other companies. Among these were Fort Hamilton (New York), Forts Eustis and Story (Virginia), Fort Leonard Wood (Missouri), and Fort Carson (Colorado). The company



FIGURE 9-9. Staff gathered on front steps of Balfour Beatty Communities office at Fort Detrick, Md.

Courtesy of RCI Office.

went on to win contracts for projects at Fort Bliss (Texas) in 2004, and Fort Gordon (Georgia) in 2005. The Army subsequently made housing privatization for White Sands Missile Range (New Mexico) a part of the Fort Bliss RCI project. In addition, the company acquired from a previous developer two projects affected by the Army's Base Realignment



FIGURE 9-10. Balfour Beatty Communities-sponsored Halloween event for residents at Fort Carson, Colo.

Courtesy of RCI Office.



FIGURE 9-11. RCI family housing at Fort Hamilton, N.Y.

Courtesy of Balfour Beatty Communities.

and Closure program: Carlisle Barracks (Pennsylvania) and Picatinny Arsenal (New Jersey). It later won contracts for West Point (New York) in 2007 and Fort Jackson (South Carolina) in 2008.

In 2008, Balfour Beatty PLC, an international engineering, construction, and investment company, acquired GMH Military Housing from its parent company, GMH Communities Trust. This acquisition was approved by the Army and marked the first time an RCI project partner had been acquired by another company. In addition to its focus on services to residents—leasing, maintenance, snow removal, yard care, and answering everyday questions—the company has also sought to introduce community and sustainability initiatives, including recycling programs, and efficient lighting and appliances. Brad Collier, Regional Project Director for Balfour Beatty Communities, said “There is no greater reward than to execute the numerous ribbon-cutting ceremonies where the keys to a brand new home are handed over to a young Soldier and

his or her family. Often people would cry, saying they never thought this was possible and offering their heartfelt thanks.”⁴⁴

In a June 2008 interview, Robert Shepko, then Senior Vice President of Balfour Beatty Housing, talked about the company’s successes in Army privatization projects and mentioned some of the challenges that remained for Balfour Beatty and other companies partnering with the Army in the RCI program. Shepko observed, “I think every year expectation levels increase and the bar gets reset as you deliver on what you say you’re going to deliver. So what might not have been expected before ... after that bar has been raised, it’s kind of like, ‘Well, wait. You used to do that. Why aren’t you doing it?’”⁴⁵

Fortunately, the partnership between the Army and Balfour Beatty Communities has continued to meet expectations, while also demonstrating the flexibility of the company and the RCI program to weather financial downturns, transfers of projects, and even acquisitions among private partners.



FIGURE 9-12. New RCI housing in the Gertsch Heights neighborhood at Fort Wainwright, Alaska.

Courtesy of RCI Office.

Although a number of RCI partners had to accommodate transitions in the midst of the financial and credit crisis, they continued to employ innovative designs and development strategies to improve the living conditions of soldiers and their families. These types of improvements to Army homes and communities came at a critical time, when the wear and tear of combat duties and multiple deployments placed immense burdens on many Army families. Many of the new features of RCI housing developments demonstrated that the privatization partners were doing more than simply building houses; they were also building communities. For instance, at Forts Wainwright and Greely in Alaska, the partner LLC North Haven Communities and the developer Actus Lend Lease paid special attention to home design in a region where winter’s reduced daylight hours, harsh winds, and subzero temperatures keep residents indoors for long periods of time. North Haven implemented the construction recommendations of the Cold Climate

Housing Research Center, which led the housing team to design homes with “triple-glazed casement windows and a ‘cold roof’ design to prevent the formation of ice dams and minimize heat loss.” North Haven also attended to smaller details, such as “painting rooms with bright colors, placing windows strategically to capture optimum light, installing full-spectrum lighting in bathrooms and kitchens, and creating spacious living areas so families can entertain during those long winter months.”⁴⁶

Other RCI developer partners likewise initiated plans or programs to enhance the home lives and, by extension, the work lives of Army families. These efforts included events and memorial sites to honor both returning and fallen soldiers. Housing partner Balfour Beatty Communities, for example, teamed with the Army to create the “Warriors Walk” at Fort Stewart, Georgia, which honors soldiers from the Third Infantry Division who fell in Iraq but is also often used as a place to greet soldiers coming home from deployment.



Warriors Walk



FIGURE 9-13. New tree plantings along Warriors Walk, Fort Stewart, Ga., December 2006.

Courtesy of Balfour Beatty Communities.



FIGURE 9-14. Close-up of one soldier's memorial and the personal mementos that friends and loved ones left at the site.

Courtesy of Balfour Beatty Communities.

At Fort Stewart/Hunter Army Airfield in Georgia, there is a long, straight path bounded by hundreds of young Eastern redbud trees, one for each fallen service member of the Third Infantry Division who served in operations Iraqi Freedom and Enduring Freedom. The path is called Warriors Walk, a memorial that draws friends and loved ones who come to pay respect and to commemorate, often with wreaths and other mementos that they leave along the path. The site has hosted numerous dignitaries and special events. Soldiers have marched there before deployments and returned there on arrival home. Within this RCI community, this area is a symbolic tribute to men and women who have died in service.

The Army held the first ceremony at Warriors Walk in April 2003. Since then, dedications of new trees have taken place almost monthly. As of February 2011, the site commemorated a total of 436 soldiers, ranging in rank from private to colonel, a redbud tree representing each one of them. The

trees' pink blossoms emerge in early springtime, as though to observe the season of the war's first casualties. Eventually, when the trees mature, their branches will form a canopy above the walkways. The memorial has been expanded several times as the list of soldiers killed in the war has grown longer, with paths extended and new pathways poured, stone plaques lining the walk. The redbud-lined pathways flank the full length of Cottrell Field on both sides.

Balfour Beatty Communities manages the site of the memorial at Fort Stewart. Chris Williams, president of Balfour Beatty, described the walk as a way "to express our deep respect, appreciation, and remembrance" for fallen members of the Third Infantry. He declined comment specifically on the company's role in the memorial, which remains mostly a private tribute for past and current community residents. "It's not about us," Williams said, "it is about those soldiers."⁴⁷

PRIVATIZATION OF UNACCOMPANIED PERSONNEL HOUSING

In addition to its family housing efforts, the RCI program also tackled single or Unaccompanied Personnel Housing (UPH) and the development of adequate visitor lodging on Army installations. The 1996 MHPI legislation stipulated that the Army could use the privatization authorities to address unaccompanied housing, even establishing a fund for that purpose. However, the services did not really begin utilizing the authorities for UPH until the first decade of the twenty-first century. Under the *National Defense Authorization Act for FY 2003*, the U.S. Navy received authority to move forward with three housing pilot projects for single sailors. The Army followed the Navy's example and began exploring its first UPH project at Fort Irwin in 2002.

Because of its isolated location in California's Mojave Desert, Fort Irwin had historically quartered a higher proportion of unaccompanied personnel (soldiers who had no family members with them) than other installations. Before 2002, Irwin had 121 Bachelor Officers Quarters and Senior Bachelor Enlisted Quarters (for those ranked from Sergeant First Class to Sergeant Major), but they were small, unattractive, and in disrepair. As a result, a large number of those senior soldiers either rented living quarters or purchased mobile homes. When Clark Pinnacle began investigating the possibility of constructing a town center at Fort Irwin similar to the one it was building at Herryford Village at Fort Belvoir, it decided to incorporate 200 apartments for senior unaccompanied personnel (SFC and above, including officers) into the center to fulfill the installation's need. The Army agreed to the construction.⁴⁸

Elsewhere, the development of an Army barracks privatization program, that is, UPH for Privates and Staff Sergeants, proceeded slowly, in part

because of Army culture and because of the cost to the BAH account. Army leaders wanted junior single soldiers to live together in barracks, rather than separately in apartments, to preserve the soldiers' war-fighting ethos, command and control, and training in the barracks as a way of Army life. But privatizing barracks in the United States would have added significantly to the Army's budget. One estimate in 2004 was as high as \$700 million of BAH to privatize barracks nationwide. It was clear that Army barracks were in as bad a condition as family housing, if not worse, and the Army did not have the money to repair, maintain, or sustain them. The RCI Program Office and particularly Rhonda Hayes and her staff worked diligently to get Army leaders to accept the barracks privatization idea. But they had little success in the face of the strong resistance they encountered from barracks and BAH proponent offices.⁴⁹

In April 2004, the Acting Secretary of the Army established a UPH Privatization Task Force to investigate the "financial feasibility [and] desirability of UPH privatization." The task force issued its findings in November 2004, announcing that in selected cases in the United States, the UPH privatization program was financially feasible and desirable. However, over the six months of the study, the task force and its executive council could not reach consensus on these findings or recommendations. Therefore, the task force report went to the Army leadership only, and report recommendations were not officially disseminated. As a compromise between the UPH task force and its executive council, the report findings were incorporated into the "Holistic Barracks Strategy" effort of the Office of the Assistant Chief of Staff for Installation Management (OACSIM). Specifically, the Army would consider privatizing housing for Sergeants (SGTs, E-5s) and Staff Sergeants (SSG,



FIGURE 9-15. UPH club house facility at Fort Stewart, Ga.
Courtesy of RCI Office.

E-6s) where feasible and appropriate to complete the modernization of barracks at that site. However, after reviewing the study report, the Secretary of the Army decided in January 2005 to see how the Navy's pilot program proceeded before initiating one at the Army level.

Subsequently, in March 2006, single SSGs were forced to live off post, thus freeing space for more junior single soldiers. Also during 2006, the Assistant Secretary of the Army for Installations and Environment (ASA, I&E) started to show some interest in barracks privatization due to a shortage of modernization funds. Accordingly, there were several initiatives dealing with barracks privatization and briefings were developed to obtain Vice Chief of Staff of the Army (VCSA) support. In March 2006, the VCSA asked for validation of the

2004 UPH task force financial results, and subsequently the Office of the ASA Financial Management & Comptroller validated the potential savings. However, Army leadership—including the VCSA; ASA, I&E; and ACSIM—were still not fully committed to starting a barracks privatization program in the Army. They also felt pressure from internal Army stakeholders to maintain the status quo and keep the old barracks programs in place.⁵⁰

Finally, in 2006, Army officials agreed to move forward with several non-barracks pilot projects for senior single soldiers (SSGs and above, including officers) at Fort Irwin, Fort Drum, Fort Bliss, and Fort Stewart. In September 2008, Fort Irwin became the first installation to complete construction of UPH apartments and house unaccompanied soldiers under the RCI privatization



FIGURE 9-16. Lodge for UPH apartment residents at The Timbers complex at Fort Drum, N.Y.
Courtesy of Lend Lease.

program. The first 22 homes were completed ahead of schedule, and the first tenants moved into their new quarters in early September. In January 2008, the Army closed on the Fort Stewart UPH project for ranks E-6 and above. GMH Military Housing (now Balfour Beatty Military Housing), already the partner for privatized family housing on the installation, was also the partner for privatized single housing through the UPH project. By project completion, GMH expects to have added 334 one- and two-bedroom apartments that will accommodate approximately 370 soldiers.

The deteriorating state of the national housing and credit markets threatened, for a time, the economic viability of the Fort Stewart UPH project, but the Army's new BAH rates released in December 2006 included a favorable 14 percent

BAH increase for unaccompanied soldiers with a rank of E-6. The increase was 12 percent higher than the BAH rates projected in the pro forma for the partnership deal. This provided GMH with greater financial stability and allowed the partnership to lock into place more favorable interest rates at closing.⁵¹

The Fort Drum UPH project aimed to build 192 "garden walk-up style" apartments, 64 of them one-bedroom apartments and 128 of them two-bedroom apartments. Soldiers holding the rank of staff sergeant through captain, as well as single sergeants who had a non-availability certificate (provided to soldiers when adequate on-post barracks accommodations are not available), would live in the apartments. Fort Bragg set a goal of 312 apartments (120 one-bedroom and 192 two-bedroom).

Both installations were scheduled to have the first apartments on line in February 2009. By June 2008, the Army had successfully closed on four RCI-UPH projects that would eventually provide 1,038 apartments and a total of 1,394 rooms for unaccompanied soldiers. All were due to be completed by summer 2011. However, RCI's plans for Fort Bliss, which had called for 358 apartments (306 one-bedroom and 52 two-bedroom), were interrupted by the increasing volatility in national and global financial markets. Fort Bliss did not close due to problems with the project financials as credit and real estate crises grew worse.

Although it appeared in 2009 that UPH privatization would be restricted to senior soldier accommodations, the ACSIM reinvigorated the possibility of a barracks privatization program with the Barracks Privatization Initiative (BPI). At the same time, congressional interest in a BPI-type program appeared to be gaining strength. However, the BPI proposal stalled once more in 2010, again due to the Army's resistance to a cultural change. The Senate and House had already preliminarily investigated the possibilities in a 2009 congressional study of UPH privatization, which focused on privatization of UPH for senior single soldiers (SSG and above, including officers) and junior single soldiers (Privates [PVTs] through Sergeants [SGTs]).

That UPH study generated both House and Senate reports on the study's results and findings. The House report asked for analyses of UPH privatization for senior and junior single soldiers, but the Senate request focused on privatization of junior enlisted barracks only. Accordingly, the UPH study undertook further work to provide an update of the SSG-plus and UPH privatization program but focused on UPH barracks privatization for PVTs through SGTs, since the Army had already

implemented a SSG-plus privatization program. It should be noted that the UPH study addressed permanent-party housing only. It did not include student, training, reserve component, cadet, ROTC, or other training requirements, accommodations, or operations. Further, the study's report did not provide any recommendations, because the congressional reports had not requested any and because there had been no change in the Army's policy that UPH privatization was limited only to SSG-plus housing where there were no adequate or affordable off-post rentals.⁵²

The two congressional reports covered four major areas investigated in the UPH study. The results and findings were as follows:

- The study found no legal impediment to barracks privatization and therefore no new authorities were needed.
- The study concluded that the Army could not continue its traditional way of operating barracks—in which the Army exercises complete command and control over junior enlisted soldiers, builds unit cohesion, protects the war-fighting ethos, and provides a reasonably comfortable and safe environment for soldiers—without adverse OMB budgetary scoring treatment.
- The study found that barracks privatization would fix and sustain quality accommodations over the long term, thus improving quality of life for single junior enlisted soldiers, making conditions similar to what their married counterparts enjoyed.
- The study found that barracks privatization was less costly than current barracks programs when the two were compared using a life cycle cost analysis (LCCA). A LCCA requires that both alternatives use the same standards and both are funded at 100 percent



FIGURE 9-17. Kitchen layout in model apartment for The Timbers UPH housing complex at Fort Drum, N.Y.

Courtesy of Lend Lease.

of requirements. However, barracks standards are constrained by law and the Army does not fund barracks at 100 percent of the required costs. As a result, barracks privatization would be a substantial net cost to the Army. The Army has \$6 billion worth of barracks modernization scheduled through FY 2013, aiming to reach a higher standard of barracks quality by 2015.⁵³

The UPH program continued to move forward toward the end of the decade, with new deliveries at a number of installations. On November 10, 2008, just two months after the first deliveries of UPH apartments at Fort Irwin, the first Unaccompanied Senior Enlisted Quarters and Unaccompanied

Officer Quarters were handed over at Fort Stewart. The installation held a ribbon-cutting ceremony the following month to recognize the deliveries of the buildings and a clubhouse. By the end of 2008, five buildings were ready for occupancy at Fort Stewart through the program.⁵⁴

In early 2009, the first new apartments at Forts Bragg and Drum were completed. The UPH housing that had already opened at Fort Irwin was at 95 percent occupancy and was drawing favorable comments from residents.⁵⁵ Halfway through the year, the program counted deliveries of the 104 Phase I apartments at Fort Irwin and a complete transfer of 192 UPH units at Fort Drum.⁵⁶ At the end of the year, all of Fort Stewart's 334 UPH apartments were delivered. Fort Bragg was still not complete, but

deliveries were ahead of schedule. With 88.4 percent of total planned deliveries already transferred, the UPH program was progressing smoothly considering the larger challenges posed by the broader national economic climate.⁵⁷

While Forts Irwin and Drum maintained occupancy close to 100 percent, Forts Bragg and Stewart lagged well behind the other installations, with average occupancy at approximately 75 percent between the two. Project teams worked toward developing attractive marketing plans, but additional deployments in support of overseas missions continued to hamper efforts at filling vacancies.⁵⁸ The housing was available, but the soldiers were not present—a sign of the lingering effects of America’s involvement in extended wars abroad.

PRIVATIZATION OF VISITOR LODGING ON ARMY INSTALLATIONS

In a similar way, the Office of the Deputy Assistant Secretary of the Army for Privatization and Partnerships used the RCI model to privatize visitor lodging on Army installations. Several posts had facilities for visitors, but, according to Deputy Assistant Secretary Armbruster, “Most of them do not offer what you can get outside the gate.”⁵⁹ Therefore, Armbruster explored whether the Army could team with hotel chains to construct better lodging facilities, and in 2005 Army leaders approved the Privatization of Army Lodging (PAL) program.⁶⁰

Yet Congress resisted the plan. Some congressional members wanted the Army and the U.S. Air Force Exchange Service (AAFES) to deal with lodging; others felt that construction of new facilities should be accomplished using Military Construction (MILCON) appropriations.⁶¹ In the *National Defense Authorization Act for FY 2006*, Congress required both the Secretary of the Army and AAFES to submit reports on whether they thought

visitor lodging really should be privatized and, if so, whether AAFES was the proper entity to do it. The act stipulated that the Army could not issue a Request for Qualifications (RFQ) for the PAL program until Congress had received these reports. According to a House of Representatives conference report, these requirements were placed in the bill because Congress felt that “AAFES should be allowed fair consideration in any competitive procurement of lodging management and services.”⁶²

As the Secretary of the Army and AAFES prepared these reports, Armbruster and the PAL team worked with Congress and other Army leaders to gain more support for PAL privatization. Through these efforts, the RCI Program Office eventually obtained approval to proceed with lodging privatization of three groups, categorized as A, B, and C. Subsequently, in October 2006, the Army partnered with Actus Lend Lease and Intercontinental Hotels to begin visitor lodging privatization at the 13 installations that comprised Group A, including Redstone Arsenal; Yuma Proving Ground; Forts Rucker, Leavenworth, Riley, Polk, Sill, Hood, Sam Houston, Myer, and McNair; and Fort Shafter/Tripler Army Medical Center. (McNair and Redstone were later dropped from Group A.) “We are very excited with what Intercontinental is offering,” Armbruster declared. “We’re going to give [visitors] a quality of hotel opportunities that we just simply don’t have and can’t have with Army lodging.”⁶³

Although the PAL program adopted some of the principles of the RCI program, it was implemented by the PAL team, a group of individuals well versed in Army Lodging but with no experience in privatization. The team was able to negotiate with Actus Lend Lease to develop a Lodging Development Management Plan, but the Army and the PAL team were never able to reach consensus



FIGURE 9-18. Room in new Army lodging at Fort Sill, Okla.

Courtesy of RCI Office.

on the legal and financial structure of the deal. The PAL program had been in progress since October 2003 and had suffered numerous delays and setbacks, while also facing opposition from both AAFES and Army Lodging proponents. As a result, PAL was suffering from a serious credibility challenge within the Army. In the meantime, the 2008 credit crisis occurred, dealing another blow to the PAL program’s ability to obtain a favorable credit rating and receive financing.

In October 2008, Paul Bollinger, Armbruster’s successor as Deputy Assistant Secretary of the Army for Energy and Partnerships, assigned Deputy Director of RCI Rhonda Hayes to take over the PAL program. Hayes and her team of Barbara Sincere, Dean Perez, and Mark Hausherr from Jones Lang LaSalle (JLL), who could draw on years

of experience in RCI projects, quickly assessed the status of the negotiations. They determined which deal points were appropriate and which had to be restructured and then opened previously closed communication channels with the 10 affected installations and the leadership of the Army Lodging community. The biggest challenge for Hayes and her team was reestablishing the credibility of PAL with the Army leadership. The program had previously announced, and subsequently missed, a number of financial closing dates, leading Hayes to conclude that any more public delays would be the death of the program. She steadfastly refused to set a transition date until the Army was certain that financing could be obtained.

Financing the project proved to be a significant challenge. When the Army initiated the PAL

program in 2003, Army Lodging made the decision to cease recapitalization at these installations, choosing instead to invest Army Lodging recapitalization funds primarily overseas where the assets would not be privatized. While this move was deemed a reasonable business decision at the time, the protracted delays between creation of the PAL program in 2003 and the pursuit of private investment in 2009 had produced a lodging inventory which, in many cases, did not meet minimum private-sector standards for quality of life and safety, much less resemble industry lodging standards. As a result, the financial community deemed the Army Lodging projects at the first 10 locations inadequate for use as collateral for a permanent loan. In response, the Army, Actus Lend Lease, and Bank of America carefully crafted a new financial structure, combining construction loans and equity, that would cover the first 24 months of the PAL program.

The Army's objective for the first two years of the program would be to meet private-sector code compliance and to place five hotels under the Holiday Inn Express brand. They did this in order to ensure that the assets qualified as suitable collateral for obtaining a permanent loan in August 2011. Group A installations ultimately "closed" (that is, the partnership agreement between the Army and the developer was signed and sealed) in August 2009, 10 months after Hayes and her team assumed the reins. In appreciation for the "rescue" of PAL, Actus Lend Lease presented life-guard rescue rings with "USS PAL" emblazoned on them to Hayes, Hausherr, and Sincere. All the while, Congress kept a close eye on the program, requiring the Secretary of the Army to submit a report on how the program was working eight months after lodging privatization had taken place. The Secretary's report would also make recommendations for future expansion.⁶⁴

CONCLUSION

The improvements that the Army RCI program brought about in military housing were evident in statistics, awards, and in the words of the residents—a testament to the success of the Residential Communities Initiative. Toward the end of 2009, the RCI program delivered its 20,000th home, with an end-year total of 21,560 new homes in the program.⁶⁵ But the success of the program went beyond the numbers. In May 2009, Fort Belvoir's Fairfax Village Neighborhood Center earned the RCI program its first platinum rating for Leadership in Energy and Environmental Design (an internationally-recognized green building certification award). The center utilized "environmentally friendly materials and building practices," including the significant accomplishment of diverting 95 percent of construction and demolition waste from landfills toward other purposes.⁶⁶

In September, the program published the results of a 2009 survey of RCI program housing. As recorded in the quarterly portfolio report:

This year, for the first time, satisfaction ratings for all Services, Property and Overall Housing Experience factors improved over the previous year's survey ratings; all either met or exceeded the Army Goal Value of 3.5 on a 5.0 scale.⁶⁷

In addition, a full two-thirds of RCI residents of both new and renovated homes responded that they would likely recommend privatized military housing to others—an increase of 10 to 15 percent over the previous year.

By the third quarter of 2010, the Army continued to program substantial funds toward improving RCI projects, with 11 installations scheduled to receive approximately \$455 million in appropriations by the end of the year.⁶⁸ The Army's final

RCI project slated to transfer to a private partner, Fort Richardson, Alaska, was subsequently transferred to the Air Force privatization team after Fort Richardson became part of Joint Base Elmendorf-Richardson in October 2010 in the wake of the 2005 BRAC legislation. As had been determined in the case of Joint Base Lewis-McChord, described earlier, it made no sense to have two separate privatization initiatives on the same installation.⁶⁹

In 2010, nearly all Army family housing in the United States (except for some homes at very small installations) was privatized.

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FIGURE C-1. New family housing, constructed under Army RCI privatization, in the Linden Oaks neighborhood of Fort Bragg, N.C.
Courtesy of Picerne Military Housing.



Conclusion

On January 28, 2008, U.S. Representative Chet Edwards (D-Texas) entered a statement in the Congressional Record, honoring the Residential Communities Initiative (RCI) program. Noting that the Bush administration had called RCI “the most important military housing improvement program in our Nation’s history,” Edwards praised RCI for doing work on 88,000 homes, using (at that time) a “10-to-1 leverage of public investment.” In Edwards’ words, “RCI projects are pioneering the use of manufactured housing, solar-powered and ‘green building’ techniques, and ‘new urbanism’ design concepts.” In addition, they are “achiev[ing] high satisfaction rates among military families” because they provide “faster construction, better housing, neighborhoods and community facilities, and more responsive maintenance and management.” Reflecting upon these features, Edwards characterized the program as “a major success” and counseled other government agencies to “look to RCI for lessons that may help

to meet our national challenges in rebuilding infrastructure and managing resources.”

Edwards’ high praise for the RCI program was more than justified. In the early 1990s, the U.S. Army—as well as the entire U.S. Department of Defense (DOD)—faced a bleak family housing situation. More and more of its soldiers had spouses and children, but the housing on installations was inadequate for these families. At best, homes were too small; at worst, they were shabby, substandard, poorly maintained, or outright falling apart. Estimating the total cost of revamping its housing system at nearly \$20 billion, the DOD turned to the authorities granted in the *Military Housing Privatization Initiative of 1996* (MHPI) for answers.

This was not the first time that the military had approached the private sector for help with its housing needs. The Wherry and Capehart programs in the mid-twentieth century also used private capital to construct family housing, but with limited success. Various other initiatives, such as

Section 801, Section 802, and Section 2667, all utilized private resources as well. Yet the RCI program, in terms of both the number of homes affected and its acceptance by Congress and the Army, far exceeded these other ventures. What was it about the RCI program that enabled it to succeed so dramatically where others had languished or failed?

By the late 1990s the federal government had become more receptive to privatization concepts. The Reagan administration had started the trend in the 1980s when it explored outsourcing non-essential government functions and making government agencies more efficient overall. The Clinton administration continued the trend in the 1990s, as Vice President Albert Gore led efforts to evaluate government efficiency following President Bill Clinton's campaign pledges to "reinvent" the government. When President George W. Bush was elected president in 2000, he, too, asked government agencies to consider what non-essential functions they could outsource to the private sector. With such trends already underway across the government and even in the private sector, the idea of privatizing Army housing—which, indeed, was not a core military function—became more acceptable and even seemed appealing and desirable.²

Privatization fit the needs of the time. It coincided with military restructurings and downsizings associated with the end of the Cold War (the Wherry and Capehart programs) and the beginnings of the Global War on Terror. Downsizing in the early 1990s meant that the military received less funding for its operations, and both the Army and Congress pursued strategies for saving the military money. After 2001, as the Army became more deeply involved in conflicts in Afghanistan and Iraq as part of the Global War on Terror, it became increasingly important to soldiers to know that their families were safe and



FIGURE C-2. Family in front of new Clark Pinnacle—built home in RCI family housing development at the Presidio of Monterey, Calif.

Courtesy of Clark Realty Capital.

comfortable at home while they served overseas. As Don Spigelmyer noted, "If a soldier in Iraq knows his family is well taken care of and in a safe community, it allows him or her to focus more on their mission and do their job."³ Since at that point the Army operated as an all-volunteer organization, providing incentives to soldiers and their families to reenlist was highly important.

RCI also succeeded because it was able to provide to Army personnel something that traditional military construction (MILCON) could not: housing quality equal to what families could find off post. It was no coincidence that RCI came along at a time when the real estate market boomed in the United

States. In the first decade of the twenty-first century, home ownership hit record highs for American families, reaching 69 percent in 2004. Soldiers did not want to be excluded from what so many of their civilian contemporaries were experiencing.

Significantly, the housing boom also fueled an escalation in housing prices that resulted in higher Basic Allowance for Housing (BAH) levels for soldiers, enabling the RCI program to become profitable enough to attract large-scale developers.⁴ Favorable interest rates were also a beneficial factor in financing the RCI program.

Another factor favoring the success of RCI was the change in housing expectations. By the twenty-first century, families in the United States had different expectations for housing than they had had in the 1950s, 1960s, and 1970s, the decades during which the Army had built most of its family housing. Whereas housing in those decades had emphasized compactness—few bedrooms, few bathrooms—families in the twenty-first century wanted more space, including bedrooms for each child and at least two or three bathrooms.⁵ Existing homes on installations could not compete with those expectations and, as a result, RCI development saw the construction of larger homes (including the requirement that all homes have at least three bedrooms) and renovations that combined small one- and two-bedroom apartments into three- and four-bedroom homes. As Aimee Stafford at Fort Meade declared, "People want somewhere they can have their mom visit and [not be] embarrassed."⁶ MILCON could not provide such a home, but RCI could.

The fact that the Defense Department really had no other solution for fixing military housing also helped RCI succeed. As the program geared up, Army and DOD officials continually told Congress that housing was a massive problem, that no one

had the large amounts of money required to fix it, and that it would take 30 years at current funding levels for the DOD to eliminate all inadequate housing. Officials estimated that the Army alone had a \$7 billion renovation, maintenance, repair, and deficit build-out backlog.⁷ Under the RCI program, however, Congress appropriated only approximately \$2 billion to obtain 85,000 renovated and new homes in the United States. By comparison, some construction and renovation of family housing, using traditional MILCON funding, still occurred between 1998 and 2010, but this funding supplied only a little more than 5,000 homes at a cost of approximately \$1.3 billion.⁸ The privatization approach was much more economical and efficient.

Because the privatization program was meant to provide a better quality of life for soldiers and families, RCI became a bipartisan program. Republican members of Congress, such as Joel Hefley, supported RCI, as did Democrats such as Chet Edwards and Norman Dicks. No representative or senator wanted to oppose a program that benefited soldiers and families in such a dramatic way, especially after RCI had actually reached the stage of quickly producing quality new and renovated homes and residential communities. Nor did any representatives or senators want to lose local RCI subcontract work for their constituencies. Both the Clinton and Bush administrations supported RCI as well.

The most important reason for the RCI program's success, however, was its own leadership. Throughout the genesis and execution of the program, its leaders and consultants were firmly committed to privatization and worked tirelessly to gain support from those who opposed it. Don Spigelmyer, for example, was involved with privatization plans from their inception early in the 1990s, serving on tiger teams, developing the



FIGURE C-3. Todd Hunter, Rhonda Hayes, and Joseph Calcara during opening ceremonies of the Professional Housing Management Association's (PHMA) 2011 professional development seminar. Courtesy of PHMA.

Capital Venture Initiatives (CVI) program, and ultimately leading RCI, first as deputy director and then as executive director, until his departure from the program in 2007. Likewise, Ted Lipham was a strong supporter of RCI, and provided the RCI Task Force with critical leadership in its early years. According to Mahlon "Sandy" Apgar, IV, Assistant Secretary of the Army for Installations and Environment, another individual within the RCI organization who had a significant impact was Ivan Bolden, who worked closely with Apgar on the Integrated Process Team and eventually headed the RCI asset management function under the Office of the Assistant Chief of Staff for Installation Management in 2007.⁹ Rhonda Hayes emerged as another key leader in the RCI

program. She served as Don Spigelmyer's deputy and she was critical to the success of the Unaccompanied Personnel Housing privatization and Privatization of Army Lodging (PAL) programs. Don Spigelmyer said of Hayes, now Director of Capital Ventures, Office of the Assistant Secretary of the Army (Installations, Energy, & Environment), "I could not have done my job without her. She was invaluable."¹⁰ Starting in 1999, the RCI program's advisers from Jones Lang LaSalle also played a key role in helping the Army develop and execute the RCI and PAL programs and their models, policies, and procedures.

Of course, Mahlon Apgar himself was a key figure in the development of the RCI program. With a lifetime of experience in real estate issues



FIGURE C-4. Army families at a 2009 Spring Carnival, sponsored by Picerne Military Housing, at Fort Bragg, N.C. Courtesy of Picerne Military Housing.

under his belt when he became Assistant Secretary of the Army for Installations and Environment, Apgar conceived the RCI program and, with the help of Undersecretary of the Army Bernard Rostker, convinced Congress to support it. Apgar did not necessarily win many friends in his work as Assistant Secretary, but numerous individuals involved with RCI testified that his creativity and his tenacity were critical to the program's survival in its initial battles. As Joyce VanSlyke explained, "He had a very clear vision and goal of where this program was going..."¹¹ According to Louis Bain, Housing Chief at Fort Lewis, Apgar was "basically the father of RCI."¹²

Yet Apgar needed supporters in the Army itself to enable him to implement his vision. U.S. Army

Forces Command Commanding General Thomas Schwartz and Vice Chief of Staff Jack Keane were two of the early advocates of RCI, and their support influenced other officials—both within Army headquarters and on installations—to accept the program. They were also influential in deflecting the initial opposition of some congressional members, as were Congressmen Edwards of Texas and Dicks of Washington. Although U.S. Representative David Hobson (R-Ohio) of the Military Construction Appropriations Subcommittee sometimes seemed opposed to RCI, he eventually became convinced of the viability of the program and supported it fully. Without these key individuals, RCI would have languished as a program in 1999 and 2000.

Another critical factor in the success of RCI was the creativity of those who worked on the program. Apgar clearly fit this mold, but the ideas and innovations of individuals in charge of housing on Army installations also helped the RCI pilot projects succeed. The implementation of the Portfolio and Asset Management program was another critical component to success, as it successfully resolved what had been one of the biggest problems with other privatization programs, such as Wherry: how to get the private partners to continue to invest in maintenance and not just pocket the money as profits.

The private partners also influenced the evolution and success of RCI. Most of them were either large firms that had both construction and property management experience, or partnerships between construction firms and property management firms. These companies willingly applied private-sector principles and thinking to the construction of military family housing. Through their work, the RCI program incorporated New Urbanism features such as neighborhood centers, shopping areas, and neighborhood events, all of which contributed to a larger sense of community. That sense of community was enhanced by the fact that RCI did not mandate cookie-cutter approaches to housing; instead, it allowed developers to produce housing that fit in well with the surrounding community. “When you visit a place like Fort Belvoir or you go down to Fort Hood or to Monterey,” William Armbruster, Deputy Assistant Secretary of the Army for Privatization and Partnerships, explained, “you will see a different flavor, a different environment”¹³ And that was the larger goal of RCI—to foster a feeling of distinct community and belonging.

Yet for all of its positives, RCI was not perfect. Although it had enjoyed bipartisan support for much of its existence, the threat of it becoming

politicized was always lurking and sometimes emerged full force, as in the debates over the removal of the MHPI cap in 2004. The program made a smooth transition from the Clinton Administration to the Bush Administration to the Obama Administration, but whether each new president—or new congressional members—would provide that same support was always a question.

In addition, even though soldiers appreciated the new housing that RCI created, some also believed that the program fostered a sense of “haves” and “have-nots” on installations. Those who lived in new or renovated housing were generally pleased with the program, but those who did not were less enamored of it and even at times resented RCI. These problems diminished as the partner moved through its initial development period and produced a more plentiful supply of new and renovated homes, but they caused some initial resistance. Other obstacles included the painful fact that not all installation commanders grasped the RCI partnering concept, and RCI personnel found that a major education effort was sometimes needed when installation commanders changed. Because of the time that it took for such education, some within RCI wondered whether Army headquarters could mandate an RCI training program for all installation commanders before they began their assignments.

New Urbanism elements, which heavily influenced housing on many RCI projects, such as Fort Belvoir, also triggered concerns. Although New Urbanist concepts of community and neighborhood development were the driving force behind Apgar’s vision for RCI and made the program appealing to many, others thought that New Urbanist principles sometimes forced soldiers to engage in unwanted social interactions. At Fort Belvoir, for example, Clark Pinnacle intentionally

developed neighborhoods with central mailboxes and village greens to facilitate social opportunities. Some residents did not want those opportunities, especially soldiers returning from long deployments. “Too much social opportunity too quickly can be difficult to negotiate,” Jenny Lainhart, a Belvoir resident, noted. Tracey Cassidy, the spouse of Belvoir Staff Sergeant Brian Cassidy, pointed out that many people just want to “stay in” at the end of a long work day and not participate in what they consider to be forced socialization.¹⁴ The New Urbanist features that appealed to many detracted from the program for others.

The relationship between an installation and its outlying community under RCI could be rocky at times as well, since schools, population demographics, local real estate markets, traffic, and taxation were all affected. RCI policy called for early and frequent interaction with community leaders, but some installations communicated better than others. In any case, the need to develop community buy-in seemed important to the program’s overall success.

Another key factor in whether RCI struggled or succeeded was the relationship between an installation’s RCI office and its partner. At those installations where these two entities worked well together, RCI thrived. Where the relationship was dysfunctional, the RCI program struggled. Because many of those working in RCI offices had also worked for the Army under the MILCON system of housing, it was sometimes difficult for them to relinquish control to the partner. As RCI progressed, and as people became more comfortable with the program, these obstacles for the most part diminished, but some installations continued to struggle with the partnership concept.

On the whole, however, the RCI program was a resounding success. It had taken Army family

housing to new levels of production and comfort in approximately 11 years and had done so using slightly less than \$2 billion of government funds, while the private sector contributed more than \$12.7 billion.¹⁵ Those who worked within the program found it very rewarding, especially seeing the faces of families whose quality of life had improved because of RCI. As John Picerne explained, “This wasn’t just about how many houses can you build.... This was more about elevating a quality of life and creating a better quality of life ... for soldiers and their families.”¹⁶ Because of this, many of those involved with the program found the experience to be one of the best of their professional career, including decorated generals such as Jack Keane. “I certainly took tremendous satisfaction of living a life among heroes, so to speak, most of my young and adult life,” Keane stated, but “right up there near the top is this program [RCI] because it did so much to transform the lives of people in the military.”¹⁷

As the RCI program proceeds into the future, it will be essential for it to continue to provide excellent service and products to soldiers and their families while also safeguarding the Army’s interests. How the program will evolve over the next 10 years is difficult to predict. Whether partners will maintain the homes and replace them according to timelines delineated in the Community Development and Management Plans (CDMPs), thereby perpetuating the quality of life that RCI provides, remains to be seen. What is clear is that between 1996 and 2010, the CVI and RCI programs did more to improve the quality of life of Army personnel than any other housing initiative had done before—and that was a remarkable achievement.

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In writing a history of something so recently conceived as the Residential Communities Initiative (RCI) program, it is necessary to rely largely on an abundance of electronic sources, personal papers provided directly to the authors, and oral history interviews. The archival electronic documents used in this study came mainly from two sources: Documentum, a document-managing database housed in the RCI Program Office, which was set up by the Norfolk District of the U.S. Army Corps of Engineers (USACE) to preserve important RCI-related documents; and a Share Drive that contains working files, such as emails, correspondence, photographs, PowerPoint presentations, information papers, and other important RCI documents generated by RCI Portfolio and Program Managers within the RCI Program Office. With the reorganization of the RCI Program Office in 2007, these two sources—the Documentum database and the Share Drive database—are now accessed via the Public-Private Initiatives Division within the U.S. Army’s

Directorate of Installation Services in the Office of the Assistant Chief of Staff for Installation Management and through the staff in the Office of the Deputy Assistant Secretary of the Army for Installations, Housing and Partnerships.

In addition, Historical Research Associates, Inc. (HRA) collected a variety of materials pertaining to the RCI program from individual installations, most notably Fort Carson, Fort Hood, Fort Lewis, Fort Meade, the Presidio of Monterey, Fort Irwin, Fort Sam Houston, and Fort Detrick. The RCI Office at each of these installations had both electronic and hard-copy documents in a variety of locations. The bibliographic entries below clarify in as much detail as possible the location of these documents.

Finally, William Baldwin of the USACE Office of History had four boxes of material pertaining to Army housing and the beginnings of the RCI program. These boxes will eventually be placed in the collections of the USACE Office of History in Alexandria, Va.

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RCI Project Transaction Histories

(1) FORT CARSON (COLORADO)

Major Transactions of the Fort Carson Family Housing, LLC, RCI Project

1999

- November 1: Department of the Army transfers ownership and operation of 1,823 homes to J.A. Jones.
- \$147.0M private loan funded.
- \$9.2M private equity invested.
- \$0.0M government equity invested.
- \$10.131M government loan guarantee contributed.
- IDP (Initial Development Period) End Date = November 2004
- IDP End State = 2,663 homes

2003

- November: J.A. Jones sells its interest in the project to GMH Military Housing, LLC (now Balfour Beatty Communities).

2004

- November: IDP completed.
- IDP End State = 2,664 homes (one additional home constructed)

2005

- December 21: Project becomes Fort Carson Family Housing, LLC, with the Army as a limited member.

2006

- November 29: Project assumes additional debt to fund the first phase of its ODP (out-year development period).
- \$118.6M private loan funded.
- Revised End State = 3,060 homes

2010

- April: Army invests \$98.3M in FY08 GTA scoring for the construction of 308 homes to help

eliminate the housing shortfall. Revised end state is 3,368 homes.

- September 8: OMB approves an Army investment of \$37.6M in FY09 GTA funds for the construction of 88 replacement and 88 additional homes. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.
- Current End State = 3,456 homes

(2) FORT HOOD (TEXAS)

Major Transactions of the Fort Hood Family Housing, LP, RCI Project

2001

- October 1: Department of the Army transfers ownership and operation of 5,622 homes to Actus Lend Lease to form Fort Hood Family Housing, LP.
- \$185.6M private loan funded.
- \$20.3M private equity invested.
- \$52.0M government equity invested.
- IDP End Date = June 2006
- IDP End State = 5,912 homes

2005

- October 27: Local Major Decision is approved to postpone the demolition of Walker Village indefinitely, due to strong demand for on-post housing.
- December 16: Project assumes \$26.3M in additional debt to help buy out JP Morgan's equity interest.

2006

- June 30: Project fulfills its IDP scope, consisting of 974 new homes and 1,624 major/medium renovations.

2007

- May 25: Project assumes \$69.0M in additional debt to accelerate the out-year replacement of 232 homes at Patton Park/Wainwright Village.
- Walker Village demolition schedule formalized, with land to be returned to the Army no later than December 31, 2011.

2009

- December 9, 2009: Major Decision is approved to: (1) Accelerate the replacement construction of approximately 100 homes at Chaffee Village, (2) Amend the ground lease, in order to add Walker Village to the permanent leasehold, and (3) Utilize a "selective demolition" approach in the Walker Village and Chaffee Village housing areas, to reduce the number of homes in the project's official end-state inventory.
- Current End State = 5,912 homes

(3) JOINT BASE LEWIS-MCCHORD (WASHINGTON STATE)

Major Transactions of the Lewis-McChord Communities, LLC, RCI Project

2002

- April 1: Department of the Army transfers ownership and operation of 3,637 homes to Equity Residential (EQR) to form Fort Lewis Communities, LLC.
- \$150.0M private loan funded.
- \$10.0M private equity invested.
- \$0.0M government equity invested.
- IDP End Date = April 2012
- IDP End State = 3,987 homes

2004

- June 7: Project assumes \$75.0M (2nd tranche) of additional private debt.
- September 23: Memorandum of Agreement is signed by EQR and Lewis Residential Communities Office, regarding switching to modular construction technology for all remaining new construction.
- Revised IDP End Date = December 2012
- Revised IDP End State = 4,023 homes

2008

- July 8: McChord Wing Commander approves McChord CDMP.
- July 24: SAF/IEI and DASA, E&P approve McChord CDMP.
- October 1: Ownership and operation of 978 homes at McChord AFB transfers to Lewis-McChord Communities, LLC.
- December 4: Dual-financial closing. Assumes \$125.0M in additional debt for: (1) Funds needed for Fort Lewis to complete its IDP within the required timeframe, and (2) Complete the McChord IDP.
- \$16.2M government equity invested (from Air Force).
- \$2.4M private equity invested.
- Revised IDP End Date = September 2016
- Revised IDP End State = 4,595 homes

2009

- April 2009: New Davis-Bacon wage determination is published, which contains significant increases in wage rates for all construction trades.
- Sept 2009: Major Decision is approved by DASA, I&H, to mitigate the effects on the project of the Davis-Bacon wage increases.
- Revised IDP End State = 4,699 homes

2010

- December 28: Project leverages \$72.7M of FY08 GTA funds to assume \$39.0M of additional private debt. Funds will provide for the construction of 265 additional homes to help eliminate the housing shortfall. OMB approval received on August 30; Congressional notification made; awaiting funds transfer.
- Revised IDP End State = 4,964 homes

(4) FORT MEADE (MARYLAND)

Major Transactions of the Meade Communities, LLC, RCI Project

2002

- May 1: Department of the Army transfers ownership and operation of 2,612 homes to Picerne Military Housing to form Meade Communities, LLC.
- \$325.0M private loan funded.
- \$10.0M private equity invested.
- \$0.0M government equity invested.
- IDP End Date = December 2011
- IDP End State = 3,170 homes

2005

- April 26: Project's ground lease is amended to include Old Meade Heights area (26 acres) after the demolition of 250 existing homes on the site.

2006

- May 31: Housing Market Analysis (HMA) finalized, which sets on-post housing requirement at 2,627 homes.
- November: Major Decision is approved to restructure project through reduction of project end state from 3,170 homes to 2,627 homes, execution of more renovations and fewer

replacements, and revision of Picerne equity and fee structure. (In January 2007, \$14.3M of invested equity and accumulated return was disbursed to Picerne.)

- Revised IDP End State = 2,627 homes

2008

- March 10: Project team receives authorization from lender to utilize full \$40.0M of restricted original loan proceeds for development.
- August 24: Modified Scope Plan is approved to enhance development scope, using \$40.0M of previously restricted loan proceeds.

2009

- August 5: Major Decision taken to convey approximately one acre from project's ground lease footprint back to the installation to give to the Anne Arundel County Public Schools.

2011

- January 14: Modified Scope Plan is approved with two-phase development plan, contingent upon resolution of issues with Ambac Assurance Corporation regarding enhancement of scope, utilizing \$35.3M of projected surplus funds.
- IDP End State = 2,627 homes

(5) FORT BRAGG (NORTH CAROLINA)

Major Transactions of the Bragg Communities, LLC, RCI Project

2003

- August 1: Department of the Army transfers ownership and operation of 4,746 homes to Picerne Military Housing to form Bragg Communities, LLC.
- \$296.0M private loan funded.

- \$6.0M private equity to be invested in \$2.0M amounts in 2010, 2011, and 2012.
- \$49.437M government equity invested.
- IDP End Date = December 2013
- IDP End State = 5,578 homes

2007

- September 1: Ownership and operation of 627 homes at Pope AFB transfers to Bragg Communities, LLC.
- December 19: Modified Scope Plan is approved for Family Housing project that incorporates additional loan proceeds, Pope AFB family housing inventory, and operational and developmental performance since Pope's financial closing.
- December 20: Project assumes \$169.3M of additional private debt that is allocated to Family Housing (\$123.3M) and UPH (\$46.0M).
- December 20: Decision made to move forward with UPH project to provide 312 garden-style apartments (120 one-bedroom and 192 two-bedroom) for single soldiers in ranks E-6 to O-3.
- UPH IDP End Date = June 2010
- Revised IDP End State = 6,205 Family Housing homes; 312 UPH homes

2010

- June 9: Modified Scope Plan is approved to construct 13 executive homes, utilizing \$5.4M in FY10 BRAC 2005 funds. Revised Family Housing end state is 6,218 homes. OMB approval received on August 30; Congressional notification made; awaiting funds transfer.
- August: Ground lease supplement approved to convey 20 acres into the project's footprint for executive homes site.
- September 24: OMB approves additional Army equity contribution of \$44.4M in FY08 GTA funds to construct 20 additional homes and 190

replacement homes to better align end-state inventory with 2008 HMA requirements. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.

- Revised IDP End State = 6,238 Family Housing homes; 312 UPH homes

(6) PRESIDIO OF MONTEREY (CALIFORNIA)

Major Transactions of the Monterey Bay Military Housing, LLC, RCI Project

2003

- October 1: Department of the Army transfers ownership and operation of 2,268 homes to Clark/Pinnacle to form Monterey Bay Military Housing, LLC.
- \$355.0M private loan funded.
- \$7.0M private equity to be invested.
- \$0.0M government equity invested.
- IDP End Date = September 2013
- IDP End State = 2,209 homes

2007

- April: Clark delivers the 732nd new home, at which point construction is halted in anticipation of completing a Modified Scope Plan.

2008

- August: Army completes a land exchange with City of Seaside to take control of the "kidney parcel" that is adjacent to the RCI land. This parcel is identified in the Modified Scope Plan under negotiation as the future site of the Doe Park neighborhood.
- December 16: DASA, E&P approves the Modified Scope Plan for the Monterey Bay Military Housing project.

- Revised IDP End Date = October 2013
- Revised IDP Military End State = 1,565 homes
- IDP Occupied Surplus = 732 homes

2010

- March: Army approves a change to the property management incentive fee metrics to better align Pinnacle's interests with the goals of the project.
- June: Army approves acceleration of construction of Phase I of the Ord Recreation Center and approves construction of Phase II simultaneously.
- August: Project amends the loan documents to reflect the homes' online schedule, based on the 2008 Modified Scope Plan. Action will allow the project to receive \$50M from the CAP-I account.
- IDP Military End State = 1,565
- IDP Occupied Surplus = 732 homes

(7) FORT STEWART AND HUNTER ARMY AIRFIELD (GEORGIA)

Major Transactions of the Stewart Hunter Housing, LLC, RCI Project

2003

- November 1: Department of the Army transfers ownership and operation of 2,926 homes (2,438 at Fort Stewart and 488 at Hunter Army Airfield) to GMH Military Housing (now Balfour Beatty Communities or BBC) to form Stewart Hunter Housing, LLC.
- \$246.5M private loan funded.
- \$8.9M private equity to be invested.
- \$37.374M government equity invested.
- IDP End Date = November 2011
- IDP End State = 3,702 homes (3,027 at Fort Stewart and 675 at Hunter Army Airfield)

2008

- January 10: Project assumes \$33.37M for UPH pilot project.
- \$1.5M in additional private equity to be contributed; no additional Army equity will be provided.
- UPH IDP End Date = January 2010
- UPH IDP End State = 334 apartments for a total of 370 beds

2009

- March 31: Headquarters receives first official version of the Family Housing Modified Scope Plan.
- April 28-29: ODASA, I&H Program Manager conducts visit to Fort Stewart and Hunter Army Airfield to meet with the project team and discuss the proposal.
- May 15: ODASA, I&H receives the second version of the Modified Scope Plan, which shows an additional reduction of 24 new homes at Fort Stewart.
- August 20: Final Modified Scope Plan Development Review report published.
- September 8: ODASA, I&H receives the third version of the Modified Scope Plan, which shows an additional 248 demolitions scheduled at Marne Terrace, pending additional Army equity of \$5.201M.
- November 16: ODASA, I&H sends a formal request to BBC to submit a plan for the UPH component due to the poor performance of the UPH Project caused by low occupancy rates.
- November 23: ODASA, I&H receives a detailed renovation scope plan to review.
- December 9: Modified Scope Plan is put on hold until the ROA requirements at Hunter Army Airfield are completed.

2010

- October 21: DASA, IH&P approves Modified Scope Plan to reduce the end state from 3,702 homes to 3,629 homes. The Modified Scope Plan provides for the completion of 1,663 new homes, 1,729 renovations, 954 demolitions, 4 community centers, and 39 playgrounds by the new IDP end date of December 31, 2012. The Modified Scope Plan includes the additional Army investment of \$5.201M in reallocated FY09 funds for the demolition of 248 Marne Terrace homes. OMB approval received on July 30; Congressional notification made; awaiting funds transfer.
- Revised IDP End Date = December 2012
- Revised IDP End State = 3,629 homes (2,931 at Fort Stewart and 698 at Hunter Army Airfield)

(8) FORT CAMPBELL (KENTUCKY)**Major Transactions of the Fort Campbell Family Housing, LLC, RCI Project****2003**

- December 1: Department of the Army transfers ownership and operation of 4,235 homes (this includes the one home found post-closing) to Actus Lend Lease to form Fort Campbell Family Housing, LLC.
- \$154.0M private loan
- \$6.0M private equity to be invested.
- \$60.1M government equity invested.
- IDP End Date = November 2009
- IDP End State = 4,257 homes
- HMA projects a deficit of 706 homes in FY 2005.

2007

- May 8: Project receives additional scoring that is used to enhance the development scope.

- \$28.0M additional Army equity invested (\$88.1M total).
- \$70.21M private loan funded (\$224.2M in total).
- Revised IDP End Date = December 2010
- Revised IDP End State = 4,457 homes

2008

- 2008 HMA projects a current deficit of 2,136 homes and FY 2012 surplus of 617 homes.
- November 19: ODASA, I&H approves the reconveyance of six homes in the Hedgerow Court neighborhood back to the Army at the request of the garrison.

2009

- August 28: ODASA, I&H approves the proposed revisions to the project's incentive fee metrics.
- November 12: ODASA, I&H approves \$412K of the requested \$5.7M to be moved from the development contingency budget to the development general contingency budget for parking aprons in Pierce Village and amenities in the Lee Park II neighborhood.
- November 17: ODASA, I&H approves the project's request to move \$99K from the Senior Loan Reserve Subaccount to the Utility Reserve Subaccount in order to help mitigate the impact of increases in the cost of utilities.

2010

- October 7: DASA, IH&P approves the request to extend the IDP for an additional 90 days to allow for full IDP completion, including not only the last phase of new home construction, but also construction of the last two community centers. Inability to complete by December 2010 is caused by excusable delays.
- Revised IDP End Date = March 2011
- IDP End State = 4,457 homes

(9) FORT BELVOIR (VIRGINIA)**Major Transactions of the Belvoir Land, LLC, RCI Project****2003**

- December 1: Department of the Army transfers ownership and operation of 2,070 homes at Fort Belvoir, Virginia, to Clark Pinnacle Belvoir, LLC, to form Belvoir Land, LLC.
- \$434.1M private loan funded.
- \$5.9M private equity to be invested.
- \$0.0M government equity invested.
- IDP End Date = November 2011
- IDP End State = 2,070 homes

2005

- 2005 refinance nets \$22.1M in projected incremental benefit to enlarge the scope of the project.
- \$4.6M in incremental bond proceeds added to the project.
- \$6.7M debt service reserves released to the project's construction account.
- \$10.8M in incremental GIC earnings added to the project.

2009

- May 28: DASA, I&H approves Modified Scope Plan, which provides a blueprint for completing the project within IDP with the help of sufficient budgeted funds.
- Number of homes to be renovated increased from 170 to 694.
- Total new construction reduced from 1,630 to 1,190 homes.
- Planned recreation and fitness center to be replaced with an outdoor pool and fitness center,

and planned vehicle garage construction project deferred.

- Revised IDP End State = 2,106 homes

2010

- August 16: DASA, I&H approves the execution of real-estate due diligence necessary for the return of three parcels of land to the Army and the addition of three more parcels to the ground lease to support out-year development.
- November 10: DASA, IH&P directs project to stop environmental and legal due diligence efforts until Army is briefed on further justification for the action.
- IDP End State = 2,106 homes

(10) FORT IRWIN, MOFFETT FEDERAL AIRFIELD, AND PARKS RFTA (CALIFORNIA)

Major Transactions of the California Military Communities, LLC, RCI Project

2004

- March 1: Department of the Army transfers ownership and operation of 2,290 homes (2,046 at Irwin, 231 at Moffett, and 13 at Parks) to Clark/Pinnacle to form California Military Communities, LLC.
- \$419.0M private loan funded.
- \$4.0M private equity to be invested.
- \$0.0M government equity invested at that time.
- IDP End Date = March 2012
- IDP End State = 2,806 Family Housing homes; 200 UPH homes (at Fort Irwin)

2006

- August: Army invests \$26.7M in FY06 AMF funds to construct 120 homes.

- Revised IDP End State = 2,926 Family Housing homes; 200 UPH homes (at Fort Irwin)

2007

- The project experiences low occupancy rates and significant construction cost escalations.
- Late 2007: Major Decision is approved to reallocate funds for 126 FGO renovations and increased amenities. Additionally, 120 homes are removed from the development scope, reducing the end state.
- Revised IDP End State = 2,806 Family Housing homes; 200 UPH homes (at Fort Irwin)

2009

- Army programs \$31.0M in FY07 AMF funds to construct additional homes at Fort Irwin to help eliminate the housing shortfall.
- Late 2009: Modified Scope Plan is approved to utilize the \$31.0M in AMF funds to construct 94 Senior NCO (SNCO) homes.
- \$57.7M government equity invested to date.
- Revised IDP End State = 2,900 Family Housing homes; 200 UPH homes

2010

- September 8: OMB approves an Army investment of \$30.0M in FY10 AMF funds to construct 82 CGO homes. Modified Scope Plan under review; Congressional notification made; awaiting funds transfer.
- Revised IDP End State = 2,982 Family Housing homes (2,552 at Irwin, 316 at Moffett, and 114 at Parks); 200 UPH homes

(11) FORT HAMILTON (NEW YORK)

Major Transactions of the Fort Hamilton Housing, LLC, RCI Project

2004

- June 1: Department of the Army transfers ownership and operation of 293 homes to GMH Military Housing (now Balfour Beatty Communities) to form Fort Hamilton Housing, LLC.
- \$52.0M private loan funded.
- \$2.2M private equity invested.
- \$2.175M government equity invested.
- IDP End Date = May 2008
- IDP End State = 228 homes

2007

- June 1: IDP extended to completed renovation scope.
- September 21: Partnership reaches a settlement agreement to replace Jeffrey M. Brown Associates as renovation contractor, due to problems with performance and timeliness.
- November 2: Partnership approves a Modified Scope Plan to reduce renovation scope for the remaining 24 homes.
- Revised IDP End Date = October 2008

2008

- October 1: Final remaining historic renovation (Unit 201-A) takes place.
- October 1: IDP extended until requirements identified in the trust indenture are complete.
- Revised IDP End Date = September 2009

2009

- February 1: Partnership opens “tenant waterfall” to Department of Defense and Federal Agency civilians.

- November 20: Major Decision approved by DASA, I&H to close IDP.
- Current End State = 228 homes

2010

- September 17: OMB approves Army investment of \$3.0M in reallocated FY09 funds for the renovation of 21 homes. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.
- Current End State = 228 homes

(12) FORT DETRICK (MARYLAND)

Major Transactions of the Fort Detrick/Walter Reed Army Medical Center Family Housing, LLC, RCI Project

2004

- July 1: Department of the Army transfers ownership and operation of 410 homes (189 at Fort Detrick, 221 at Walter Reed) to GMH Military Housing (now Balfour Beatty Communities) to form Fort Detrick/Walter Reed Army Medical Center (WRAMC) Family Housing, LLC.
- \$83.2M private loan funded.
- \$6.5M private equity invested.
- \$1.285M government equity invested.
- IDP End Date = July 2008
- IDP End State = 599 homes

2008

- October 27: After a concept paper is submitted by the project, ODASA approves the addition of Nallin Pond Farmhouse as a permanent home into the Fort Detrick RCI inventory.
- November 14: ODASA, I&H approves the extension of the IDP to December 31, 2008, due to

inability to complete the IDP renovation scope as stated at financial closing.

- By the revised IDP end date, the project has delivered 407 new homes as planned, but has only completed one of the two historical renovations and 14 of the 153 planned medium renovations. The project also completes 173 unplanned, minor, exterior-only renovations.
- IDP End State reduced to 597 homes (242 at WRAMC—240 at Glen Haven and 2 at Main Gate; and 355 at Fort Detrick).
- Revised IDP End Date = December 2008

2009

- April 15: ODASA, I&H approves the re-conveyance of six homes located within the WRAMC main gate back to the Army. Five of these homes are located on the back loop of the installation and were always programmed to be reconveyed prior to IDP completion. Because of the BRAC announcement, the project is trying to minimize its main-gate exposure and therefore also requests the transfer of an additional main-gate home that is to remain in the project. The project has two main-gate executive homes remaining.
- June 19: ODASA, I&H receives a request from the project to divest itself of the two remaining main-gate homes. This request is still open, pending more information about BRAC impact and local implications.

2010

- February 2: ODASA, IH&P receives a request for 2010 ODP renovation development. Project team continues to work on Modified Scope Plan.
- May 19: ODASA, IH&P approves the 2010 ODP renovation plan, which includes 14 additional renovations in the Glick/Bullene neighborhood.

- October 12: Project submits its first draft of a full 5-year ODP.
- November 1: DASA, IH&P approves the project's request to study available options for disposition of the remaining two GFOQs at WRAMC main gate.
- November 29: Project submits a revised draft ODP that expands the CR&R scope and funding to account for HVAC work and other larger cost items in order to correctly categorize development initiatives. The current proposal includes conversions and renovations at Detrick only.

2011

- February 3: DASA, IH&P approves a request to amend the end state from 599 to 597 homes.
- IDP End State = 597 homes

(13) FORT POLK (LOUISIANA)

Major Transactions of the Polk Communities, LLC, RCI Project

2004

- September 1: Department of the Army transfers ownership and operation of 3,466 homes to Picerne Military Housing to form Polk Communities, LLC.
- \$165.0M private loan funded.
- \$6.0M private equity to be invested.
- \$53.7M government equity invested at this time.
- \$10.3M government loan guarantee contributed.
- IDP End Date = February 2015
- IDP End State = 3,821 homes

2007

- Since inception, the project has experienced construction cost increases greater than pro forma

expectations, as well as low occupancy rates due to deployments.

- December: Modified Scope Plan approved to reduce end state by 160 homes and adjust new home and renovation delivery counts.
- Revised IDP End State = 3,661 homes

2010

- FY 2009 HMA is finalized, increasing the on-post housing requirement to 3,853 homes.
- September 14: OMB approves additional Army equity contribution of \$18.392M in FY10 GTA funds to construct 112 deficit homes. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.
- Revised IDP End State = 3,773 homes

(14) ARMY HAWAII (HAWAII)

Major Transactions of the Army Hawaii Family Housing, LLC, RCI Project

2004

- October 1: Department of the Army transfers ownership and operation of 8,132 homes to Actus Lend Lease to form Army Hawaii Family Housing, LLC.
- \$1,643.7M private loan funded.
- \$8.0M private equity to be invested.
- \$0.0M government equity invested.
- IDP End Date = October 2014
- IDP End State = 7,894 homes

2005

- May: Project closes financially. The deal consists of 3 tranches of debt: a fixed-rate tranche of \$1,191.2M, a floating-rate tranche of \$250.0M, and a tranche of Auction Rate Securities of \$202.5M.
- The total private loan funded is \$1,643.7M.

2008

- December: Army purchases parcels 7 and 9 from the James Campbell Company. Parcels 7 and 9 consist of 2,401 acres adjacent to Army-owned land near Schofield Barracks. The land is available to the project for future development but is temporarily leased to the Monsanto Corporation in order to have a net \$0 financial impact on the project.

2009

- The Army is working closely with Actus to formulate and validate a Modified Scope Plan. The MSP will address several developmental and operational challenges experienced since the project's financial closing. Additionally, the MSP seeks the optimal development plan to make use of all available land in order to increase the quality of life for soldiers and their families.

(15) FORT EUSTIS/FORT STORY (VIRGINIA)

Major Transactions of the Fort Eustis/Fort Story Housing, LLC, RCI Project

2004

- December 1: Department of the Army transfers ownership and operation of 1,115 homes (952 at Fort Eustis and 163 at Fort Story) to GMH Military Housing (now Balfour Beatty Communities) to form Fort Eustis/Fort Story Housing LLC.
- \$125.0M privately funded.
- \$3.6M private equity to be invested.
- \$14.8M government equity invested.
- IDP End Date = November 2010
- IDP End State = 1,124 homes

2005

- Fort Eustis/Fort Story Housing LLC commits to building two one- and two-star General Officer homes. The requirement for these homes changes due to BRAC. Once the BRAC requirement is known, a Major Decision is approved to remove the requirement of building the initial two homes during the IDP and to build all eight executive homes at one time in one neighborhood during the ODP.
- Revised IDP End State = 1,122 homes

2009

- October 1: Modified Scope Plan is approved to conduct replacements instead of renovations at Marseilles Village. Phase 2 funding (\$20.0M in FY11) will be used to replace the townhomes.

2010

- May 25: DASA, IH&P approves a Modified Scope Plan for an Army investment of \$6.5M in FY10 BRAC 2005 funds for the construction of eight executive homes to be delivered in 4th quarter of 2011. OMB approval received on August 6; Congressional notification made; awaiting funds transfer.
- Army is preparing to invest \$20.0M in FY11 GTA funds for the replacement of 84 homes; receives provisional OMB approval on August 6.
- Revised IDP End State = 1,130 homes

(16) FORT LEONARD WOOD (MISSOURI)**Major Transactions of the Fort Leonard Wood Family Housing, LLC, RCI Project****2005**

- March: Department of the Army transfers ownership and operation of 2,496 homes to American

Eagle to form Fort Leonard Wood Family Housing, LLC.

- May: Project closes financially with the funding of a \$213.0M private loan.
- \$209.7M private loan funded.
- \$8.0M private equity to be invested.
- \$29.0M government equity invested.
- IDP End Date = February 2014
- IDP End State = 2,242 homes

2006

- During annual site visit, Army identifies the illegitimate use of construction funds to fund debt service.
- Army conducts lockbox and development reviews to investigate project operation.
- Revised HMA indicates an end-state requirement of 1,806 homes.

2007

- American Eagle indicates intention to sell its interest in the partnership.
- American Eagle issues request for proposals to sell its interest.
- The project selects Balfour Beatty Communities (BBC) as a potential purchaser of American Eagle's interest and a joint venture partner for the Army. Negotiations begin simultaneously for the sale of the project and a revision of the development scope.

2008

- April: BBC submits a Modified Scope Plan to the Army.
- May: DASA, E&P briefs the garrison commander and the Army chain of command.
- Proposed MSP indicates that current project constraints require substantial reduction in scope

of new home construction and redemption of project debt.

- June: DASA, E&P approves the Leonard Wood MSP.
- Concurrently, BBC joins the partnership in place of American Eagle and the project redeems \$79.5M of debt and reduces private equity contribution by \$4M.
- Revised IDP End Date = April 2014
- Revised IDP End State = 1,806 homes

2010

- Project adjusts the construction (renovation/conversion) delivery schedule via Major Decision because the completion rate of the new home scope of work is greater than was expected at the time of the project sale.
- June 23: OMB approves the Army's investment of \$15.75M in reallocated FY09 funds for the construction of 81 new homes in lieu of renovations/conversions. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.
- IDP End State = 1,806 homes

(17) FORT SAM HOUSTON (TEXAS)**Major Transactions of the Fort Sam Houston Family Housing, LP, RCI Project****2005**

- March 1: Department of the Army transfers ownership and operation of 925 homes to Lincoln Military Housing, LLC, to form Fort Sam Houston Family Housing, LP.
- \$85.0M private loan funded.
- \$1.8M private equity invested to coincide with the end of the IDP.
- \$6.6M government equity invested.

- IDP End Date = February 2010
- IDP End State = 925 homes

2009

- September 16: Major Decision is made to adjust the remaining construction and development scope to build 133 carport spaces in the Artillery Post/Hancock and Patch Chafee villages instead of replacing 79 detached garages as originally planned. To provide the detached garages as originally planned would have cost the Project \$2.4M above the budgeted amount (\$1.2M) identified in the IDP.

2010

- February 28: IDP is completed. The Major Decision process for officially closing out the IDP financially is currently under discussion with ODASA, I&H.
- IDP End State = 925 homes

(18) FORT DRUM (NEW YORK)**Major Transactions of the Fort Drum Mountain Community Homes, LLC, RCI Project****2005**

- May 1: Department of the Army transfers ownership and operation of 2,272 homes to Actus Lend Lease to form Fort Drum Mountain Community Homes, LLC.
- \$232.7M private loan funded.
- \$5.0M private equity to be invested.
- \$52.0M government equity invested.
- IDP End Date = October 2010
- IDP End State = 3,115 homes

2007

- July 27: Project reaches financial closure on the second UPH transaction under RCI, to include 192 end-state apartments for single soldiers.
- \$26.2M private loan funded for the UPH IDP.
- UPH IDP End Date = May 2009
- Revised IDP End State = 3,115 Family Housing homes; 192 UPH homes

2008

- June 11: Project reaches closure on its Additional Government Equity Modified Scope Plan to build an additional 554 new homes and help reduce the family housing deficit.
- \$96.8M private loan funded.
- \$75.0M additional government equity invested.
- Revised IDP End State = 3,669 Family Housing homes; 192 UPH homes

2009

- October 16: Major Decision is approved by DASA, I&H to construct a community center and amenities for the UPH Project.
- November 23: Major Decision is approved by DASA, I&H to extend the family housing IDP completion date to March 2011, due to discovery of an endangered species, which delayed the commencement of site work for the final new neighborhood.
- Revised IDP End Date = March 2011
- IDP End State = 3,669 Family Housing homes; 192 UPH homes

(19) FORT BLISS/WHITE SANDS MISSILE RANGE (WSMR) (TEXAS)**Major Transactions of the Fort Bliss/WSMR Housing, LP, RCI Project****2005**

- July 1: Department of the Army transfers ownership and operations of 3,315 homes (2,754 at Bliss and 561 at White Sands) to GMH Military Housing (now Balfour Beatty Communities—BBC) to form Fort Bliss/White Sands Missile Range Housing, LP.
- \$350.6M private loan funded.
- \$7.0M private equity to be invested.
- \$38.0M government equity invested.
- New construction scope to include 1,659 new homes at Bliss and 129 at WSMR.
- Renovations and no-work homes (homes on which no work will be done) comprise the remaining scope for end states of 2,962 and 315 homes at Bliss and WSMR respectively.
- IDP End Date = June 2011
- IDP End State = 2,917 homes (3,154 with planned transfers of 48 WSMR MILCON homes and 189 Bliss Aero Vista homes)

2006

- March: 48 FY04 WSMR MILCON homes transferred to the project, plus 60 homes slated for immediate demolition.
- April: FY05 MILCON project cancelled. Army contributes \$34.96M in additional scoring to construct 123 additional homes to help eliminate the housing shortfall.
- October: Major Decision reduces WSMR new construction from 267 to 156 homes and end state from 315 to 205 homes, per updated HMA.

- Revised IDP End State = 2,978 homes (3,167 with planned transfer of 189 Aero Vista homes)

2007

- February: 189 Aero Vista homes transfer into the project.
- February: 158 homes in the Logan Heights neighborhood at Bliss to be renovated versus replaced.
- June: 20 homes in the Pershing Heights neighborhood at Bliss will be renovated rather than replaced (178 additional homes to help eliminate the housing shortfall to be constructed elsewhere); 130 homes in Hayes neighborhood at Bliss originally scheduled for minor renovation will receive no work.
- August: Convey to project two DVQs at Bliss.
- October: 29 homes conveyed to Texas DOT for demolition; 495 homes in North and South Main Post neighborhoods at Bliss to be renovated versus replaced; construction of 386 homes postponed; FGO homes increased by seven; 55 new homes originally scheduled for Paso Del Norte not constructed.
- Revised IDP End State = 3,408 homes

2009

- July: Army approves Major Decision to increase costs for utility infrastructure.
- December: Army contributes \$48.2M in FY07 Phase II and FY08 GTA funding to reduce the HMA deficit and build 202 Junior NCO (JNCO) townhomes.
- December: Army approves Major Decision to utilize construction cost savings to demolish all 299 homes in Van Horne by the end of the IDP as planned, renovate seven historic homes, and redesignate one home in Logan Heights as a neighborhood center.
- Revised IDP End State = 3,609 homes

2010

- August 30: OMB approves the Army investment of \$127.0M in FY09 GTA funds for the construction of 800 additional homes to help eliminate the housing shortfall. Modified Scope Plan in development; Congressional notification made; awaiting funds transfer.
- November: Army approves Major Decision to disburse \$1.7M from the Operating Reserve Account to BBC to cover unfunded operating expenses from 2005 through 2009.
- November: Army approves Major Decision to increase by \$129K the renovation scope for the Commanding General's home at WSMR.
- November: Army approves Major Decision to renovate two former DVQs that were previously transferred to the project in 2007, at a cost of \$355K.
- Revised IDP End State = 4,409 homes

(20) FORT BENNING (GEORGIA AND ALABAMA)**Major Transactions of the Fort Benning Family Communities, LLC, RCI Project****2006**

- January 1: Department of the Army transfers ownership and operation of 3,945 homes to Clark Pinnacle Benning, LLC, to form Fort Benning Family Communities, LLC.
- \$464.9M private loan funded.
- \$2.0M private equity invested; an additional \$4.0M to be invested to coincide with the end of the IDP.
- \$55.15M government equity invested.
- IDP End Date = December 2016
- IDP End State = 4,200 homes

2008

- May 20: Department of the Army approves three Major Decisions.
- First, the project is to enter into a sublease agreement with AAFES to bring retail into the McGraw Village neighborhood.
- Second, the project is to retain Parcel A-1 and L-1 within the existing family housing ground lease at the conclusion of the IDP. (Originally, these parcels were to be returned to the Army at the end of the IDP after the project had demolished the preexisting inventory, but the plan changed when the Army no longer needed the land.)
- Finally, the project requested approval to alter the definition of NOI to more closely reflect the definition found throughout the Army portfolio. “Net Operating Income” shall mean the amount by which Operating Income earned in such periods exceeds operating expenses in such periods.

2009

- September 16: To address current and projected sources and uses variance, Fort Benning Family Communities, LLC, approves a Modified Scope Plan. Since inception, the project has experienced various operating challenges arising out of deployments, greater-than-expected operating costs, and lower-than-expected yields on investments as a result of AIG’s downgrade. The combined effect of these challenges makes the original project scope unattainable.
- In the 4th quarter, a tender offer to repay \$96.2M of debt at 78 percent of par is complete. The debt repayment will allow the project to reach healthy financial levels in debt coverage as well as to add additional scope during the years remaining in the IDP.
- Revised IDP End Date = December 2015
- Revised IDP End State = 4,000 homes

2010

- July 13: As a continuation to the Modified Scope Plan, Fort Benning Family Communities, LLC, approves follow-on scope to the approved 2009 MSP. Due to debt repayment surplus and a revision of operating assumptions, the project projects a \$59.0M surplus. The result is that 270 new homes (in lieu of renovations) and an increase in renovation scope are now programmed as an adjustment to the MSP.
- IDP End State = 4,000 homes

(21) FORT LEAVENWORTH (KANSAS)**Major Transactions of the Fort Leavenworth Frontier Heritage Communities, LLC, RCI Project****2006**

- March 1: Department of the Army transfers ownership and operation of 1,578 homes to Michaels Military Housing to form Fort Leavenworth Frontier Heritage Communities, LLC.
- New home scope includes 708 homes and a mix of renovations and no-work homes.
- \$221.5M private loan funded.
- \$3.5M private equity to be invested.
- \$15.0M government equity invested.
- IDP End Date = December 2014
- IDP End State = 1,583 homes

2008

- October: Army approves a Modified Scope Plan that modifies phasing schedule, removes two neighborhood centers, and transfers renovation scope from Clark Construction to Prestige Renovations. Prestige is a Michaels-affiliated company. Approved pro forma includes an

\$11.4M shortfall of funds to be revisited within 18 months.

2010

- April: Army approves a Major Decision to replace the 2008 Modified Scope Plan pro forma with an updated one that reflects the significantly improved financial strength of the partnership. The new pro forma confirms a closing scope of 708 new homes and an end state of 1,583 new homes, due primarily to an 8 percent BAH increase in 2010.
- IDP End State = 1,583 homes

(22) FORT RUCKER (ALABAMA)**Major Transactions of the Rucker Communities, LLC, RCI Project****2006**

- April 1: Department of the Army transfers ownership and operation of 1,512 homes to Picerne Military Housing to form Rucker Communities, LLC.
- \$107.0M private loan funded.
- \$2.0M private equity to be invested.
- \$24.0M government equity invested.
- IDP End Date = December 2013
- IDP End State = 1,476 homes

2007

- June: DASA, P&P approves a Major Decision to reclassify 399 major renovations as new construction.
- This change increases the new construction scope from 547 to 946 homes.
- The scope for the reclassified homes involves demolishing a duplex to the slab, splitting the

slab into two single family homes, adding an addition on the back, and rebuilding.

2009

- November 23: DASA, I&H approves a Modified Scope Plan for the Rucker project.
- The MSP decreases the number of new homes from 946 to 791.
- The new plan calls for 552 medium renovations and 133 minor renovations.

2010

- February: Final changes to the legal documents required by the MSP are approved by DASA, I&H.
- IDP End State = 1,476 homes

(23) FORT GORDON (GEORGIA)**Major Transactions of the Fort Gordon Housing, LLC, RCI Project****2006**

- May 1: Department of the Army transfers ownership and operation of 876 homes to GMH Military Housing (now Balfour Beatty Communities) to form Fort Gordon Housing, LLC.
- \$79.4M private loan funded.
- \$5.0M private equity to be invested.
- \$9.0M government equity invested.
- IDP End Date = April 2012
- IDP End State = 887 homes

2009

- October: Major Decision is approved by the DASA, I&H to increase the end state to 1,080 homes.
- The project will not convert homes as originally anticipated to reach the end state.

- Current IDP scope includes 310 new homes, 577 renovations, and 193 homes requiring no work.
- Revised IDP End State = 1,080 homes

(24) CARLISLE BARRACKS (PENNSYLVANIA)/PICATINNY ARSENAL (NEW JERSEY)

Major Transactions of the Carlisle/Picatinny Family Housing, LP, RCI Project

2006

- May 1, 2006: Department of the Army transfers ownership and operation of 429 homes to GMH Military Housing (now Balfour Beatty Communities) to form Carlisle/Picatinny Family Housing, LP.
- \$30.1M private loan funded.
- \$3.0M private equity invested.
- \$39.43M government equity invested.
- IDP End Date = April 2011
- IDP End State = 348 homes

2009

- December 29: Project receives DASA, I&H approval to delay the minor renovation of 36 homes and demolition of 15 homes at Carlisle Barracks, pending approval of \$15.0M in FY11 funding.

2011

- The Army programs \$15.0M in FY11 funds to replace 56 homes in the College Arms neighborhood at Carlisle Barracks.
- Currently, the project is working on a Modified Scope Plan to utilize these funds.
- IDP End State = 348 homes

(25) FORT RILEY (KANSAS)

Major Transactions of the Fort Riley Communities LP, RCI Project

2006

- July 1: Department of the Army transfers ownership and operation of 3,114 homes to Picerne Military Housing to form Fort Riley Communities, LP.
- \$283.6M private loan funded.
- \$4.0M private equity to be invested.
- \$123.0M government equity invested.
- IDP End Date = June 2016
- IDP End State = 3,514 homes

2008

- February 1: DASA, I&H approves a Major Decision that accelerates construction during 2008, resulting in the delivery of 40 more new homes and 24 more renovations than indicated in the pro forma for 2008.

2011

- January 11: DASA, IH&P approves a Major Decision that increases the end state by 313 homes to 3,827, to meet the HMA requirement.
- IDP End State = 3,827 homes

(26) REDSTONE ARSENAL (ALABAMA)

Major Transactions of the Redstone Communities, LLC, RCI Project

2006

- October 1: Department of the Army transfers ownership and operation of 453 homes to Hunt Building Corporation to form the Redstone Communities, LLC.
- \$22.0M private loan funded.

- \$0.50M private equity to be invested.
- \$0.59M government equity invested.
- IDP End Date = March 2009
- IDP End State = 350 homes
- Year 17 End State = 230 homes

2008

- March 28: DASA, I&H approves Major Decision to mitigate the effects on the project of higher-than-expected operating expenses since project inception.
- July 1: Property manager formally changed from HBC Property Managers to Pinnacle.

2009

- December 17: IDP close-out legal documentation submitted to the Army.

2010

- Army provides concurrence with legal documents submitted for IDP close-out.
- February 12: Garrison commander provides formal concurrence via memo.
- Partner continues to refine 5-year plan for ODP with Army, as the mixture of ranks on the post is changing.
- Final ODP plan and pro forma not expected until 2011.
- Current End State = 350 homes
- Year 17 End State = 230 homes

(27) FORT KNOX (KENTUCKY)

Major Transactions of the Knox Hills, LLC, RCI Project

2006

- December 1: Department of the Army transfers ownership and operation of 2,998 homes to Actus Lend Lease to form Knox Hills, LLC.
- The project assumes \$12.5M as an interim loan to fund operations through financial closing.
- \$178.9M private loan funded (excludes \$12.5M interim loan).
- \$3.0M private equity to be invested.
- \$31.0M government equity invested.
- IDP End Date = January 2015
- IDP End State = 2,527 homes

2007

- February 1: Project closes financially.
- \$178M private loan funded.
- November 13: Project transfers \$4.8M of funds programmed for development to the Capitalized Interest Account as a result of low occupancy and NOI.

2009

- January 16: DASA, I&H approves an amendment to the ground lease.
- February 9: DASA, I&H approves a new benchmark pro forma to more closely reflect actual performance to date.
- February 12: DASA, I&H approves revised incentive fee metrics for the project.
- September 1: Project pro forma is updated to reflect revised terms of the swap agreement with Ambac Financial Group, Inc., headquartered in New York City, a holding company whose affiliates provided financial guarantees and financial

services to clients in both the public and private sectors around the world.

2010

- August 30: Swap documents are amended to reflect revised terms associated with Ambac; the project pro forma will be updated as part of a Modified Scope Plan that is expected to close later this year.
- October 29: Financial closing takes place for \$26.7M in FY10 Phase II funding for the replacement vs. renovation of existing homes and \$13.995M in FY10 GTA funding for additional home construction. OMB approval received on July 13; Congressional notification is made and funding transferred.
- Revised IDP End State = 2,563 homes

(28) FORT LEE (VIRGINIA)

Major Transactions of the Fort Lee Commonwealth Communities, LLC, RCI Project

2007

- April 1: Department of the Army transfers ownership and operation of 1,206 homes to East Army Properties to form Fort Lee Commonwealth Communities, LLC (FLCC).
- \$126.3M private loan funded.
- \$4.0M private equity to be invested.
- \$32.77M government equity invested.
- IDP End Date = December 2011
- IDP End State = 1,493 homes

2010

- March 9: DASA, I&H approves Major Decision to increase the end state by 12 homes.

- The development plan will no longer mandate the demolition of these 12 homes; instead they will be renovated early in the out-years.
- August: FLCC prepares paperwork to declare \$30.5M in savings from the three phases of IDP construction.
- November: Project moves forward with arbitration process as the design-builder and the Army do not agree on calculation of savings split.
- December: FLCC requests Major Decision approval to remove Pinnacle both as a partner in Fort Lee Family Housing, LLC, and as the property manager.
- December 21: DASA, IH&P approves transferring Pinnacle's 25 percent ownership interest to Hunt Companies, Inc. (formerly Hunt Building Corporation) and releasing them from the equity guaranty.
- Revised IDP End State = 1,505 homes

2011

- January: Capital Ventures Directorate (CVD) sends memo to Hunt outlining the terms and conditions of the interim transition of property manager from Pinnacle to Hunt, commencing July 1, 2011.
- Negotiations continue with regard to the savings split.
- IDP End State = 1,505 homes

(29) WEST POINT (NEW YORK)

Major Transactions of the West Point Housing, LLC, RCI Project

2008

- August 1: Department of the Army transfers ownership and operation of 961 homes to Balfour

Beatty Communities (BBC) to form West Point Housing, LLC.

- \$134.0M private loan funded.
- \$3.3M private equity to be invested.
- \$22.0M government equity invested.
- December 16: DASA, E&P approves a Major Decision to waive the RCI construction standard requiring sidewalks on both sides of the street in the Stony I neighborhood.
- IDP End Date = July 2016
- IDP End State = 824 homes

2009

- March 4: DASA, E&P approves a Major Decision to bring Building 733 into the project footprint for use as a maintenance facility.
- August 6: DASA, I&H approves a Major Decision for \$100K in additional scope to be allocated to the renovation of Quarters 60.
- October 2: DASA, I&H approves a Major Decision adding \$139K to the renovation scopes of Quarters 21 A/B/C.

2010

- March 9: DASA, I&H approves the exclusion from the ground lease of a sidewalk to be constructed by the installation for the benefit of the Child Development Center.
- July: DASA, I&H approves a change to the renovation agreement, making it possible to hire a new historic architect to replace John Cullinane.
- August: DASA, I&H approves an additional \$419K in renovation funds for Quarters 60.
- IDP End State = 824 homes

(30) FORT JACKSON (SOUTH CAROLINA)

Major Transactions of the Fort Jackson Housing, LLC, RCI Project

2008

- August 1: Department of the Army transfers ownership and operation of 1,162 homes to Balfour Beatty Communities (BBC) to form Fort Jackson Housing, LLC.
- October 30: Project closes financially.
- \$103.5M private loan funded.
- \$3.0M private equity to be invested.
- \$58.9M government equity invested.
- IDP End Date = October 2013
- IDP End State = 850 homes

2009

- July 16: DASA, I&H approves the substitution of the geothermal HVAC system for a conventional HVAC system.

2010

- January 15: DASA, I&H recommends that the project move forward with developing a marketing plan to sell the six parcels of land that are part of Fort Jackson.
- Marketing plan is completed and reaction from possible buyers is that all six parcels could be sold for \$800,000.
- DASA, I&H must decide if the project should move forward so that the parcels can be sold and the proceeds used for renovating homes that are currently receiving no work during the IDP.
- June: Project submits concept paper to approve change order for \$4.7M related to additional asbestos removal costs for remaining demolitions.

- October: DASA, IH&P approves Modified Scope Plan to reduce 41 major/medium renovations to no work during the IDP.
- IDP End State = 850 homes

(31) FORT SILL (OKLAHOMA)

Major Transactions of the Sill Communities, LLC, RCI Project

2008

- November 1: Department of the Army transfers ownership and operation of 1,411 homes to Picerne Military Housing to form Sill Communities, LLC.
- An operational-only financial closing takes place, due to adverse capital market conditions.
- \$30.5M government equity invested.
- IDP End Date = December 2016
- IDP End State = 1,650 homes

2009

- September: Turnover rate and costs per home are much higher than anticipated. DASA, I&H approves \$1.51M increase to the 2009 operating budget to cover additional costs.
- Partnership continues to monitor capital market conditions.
- November 6: OACSIM sends memorandum to ODASA, I&H, requesting action to transfer FY10 GTA funding of \$20.32M in conjunction with financial closing.

2010

- June 1: Project closes financially; the development plan includes an increase in end state by 78 homes to 1,728.
- \$107.8M private loan funded.
- \$2.83M private equity to be invested.

- At financial closing, Army commits to contributing an additional \$20.32M in FY10 GTA funds for the end-state increase. OMB approval received on July 13; Congressional notification made; funding transferred in November.
- Army prepares to invest \$26.7M in reallocated FY09 funds for the replacement of 78 homes in lieu of enhanced historic and nonhistoric renovations. OMB approval received on September 20.
- Revised IDP End State = 1,728 homes

(32) FORT HUACHUCA/YUMA PROVING GROUND (ARIZONA)

Major Transactions of the Fort Huachuca/Yuma PG Communities II, LLC, RCI Project

2009

- April 1: Department of the Army transfers ownership and operation of 1,570 homes to Michaels Military Housing to form Fort Huachuca-Yuma PG Communities II, LLC.
- April 27: Project closes financially.
- \$82.0M private loan funded.
- \$1.6M private equity to be invested.
- \$0.0M government equity invested.
- IDP End Date = March 2014
- IDP End State = 1,169 homes

(33) FORT WAINWRIGHT (ALASKA)

Major Transactions of the North Haven Communities, LLC, RCI Project

2009

- April 1: Department of the Army transfers ownership and operation of 1,866 homes to Actus Lend Lease to form North Haven Communities, LLC.

- Operational-only closing takes place due to adverse capital market conditions.
- \$50.0M government equity invested to fund “mini-scope.”
- Army prepares to invest an additional \$43.5M in reallocated FY09 funds. OMB approval received on September 21; Congressional notification made; awaiting funds transfer.
- IDP End Date = October 2017
- IDP End State = 1,815 homes

2010

- September 27: Project closes financially.
- \$159.4M permanent loan funded.
- \$2.0M private equity to be invested.
- \$9.59M government loan guarantee provided.
- Additional \$31.61M government equity invested for initial privatization.
- At financial closing, Army commits to contributing an additional \$52.0M in FY10 Phase III funds. OMB approval received on August 25; Congressional notification made; funding transferred in October.
- IDP End State = 1,815 homes

(34) ABERDEEN PROVING GROUND (MARYLAND)

Major Transactions of the Aberdeen Proving Ground Communities, LLC, RCI Project

2009

- December 17: Department of the Army transfers ownership and operation of 1,006 homes to Picerne Military Housing to form Aberdeen Proving Ground Communities, LLC.
- \$53.6M private loan funded.
- \$1.0M private equity to be invested.
- \$14.0M government equity invested.

- IDP End Date = February 2016
- IDP End State = 372 homes



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