

INFORMATION PAPER

SAIE

SUBJECT: Provide Information regarding Scoring Challenges experienced by MHPI program

1. PURPOSE: To provide information as stated above.

2. Key Points:

a. The most important component for success in any privatization initiative is the ability to have a variety of tools available to customize a privatization program to meet mission requirements. The Military Housing Privatization Initiative (MHPI) authorities (10 U.S. Code § 2871 et al) provided such a set of tools. The challenge, however, has been how to best use these tools without incurring significant scoring impacts from the Office of Management and Budget (OMB).

b. The Army chose to form Limited Liability Companies with private sector partners in its MHPI program. These partnerships are subject to scoring by OMB. The scoring process attempts to quantify the risk exposure and future contingent liabilities faced by the Federal Government when it enters a partnership venture.

c. The MHPI authorities were granted required special Scoring Guidelines based upon a series of 1997 communications between then-Secretary of Defense, William Cohen, and then-Director of OMB, Franklin Raines. The scoring guidelines that made the MHPI authorities successful are collectively referred to as the "Raines Memo" guidance (attached).

d. Through the MHPI authorities, the Army has privatized approximately 86,277 family homes (end-state total), 1,590 unaccompanied personnel housing apartments (for a total of 2,408 beds/accommodations), and 11,637 lodging rooms. The leveraging of private sector funds has resulted in \$14.534 billion in development at a scored cost of \$1.938 billion for a leverage ratio of 7.5 to 1.

e. Expanding the MHPI authorities to other facility types or modeling new authorities upon this successful model could greatly benefit the DoD and other federal agencies if scoring challenges can be overcome. Over the past few years, however, OMB has begun to roll back the scoring guidelines established under the Raines Memo to include the presumption of an implied financial risk to the government even when the partnership legal documents specifically preclude any government liability.

f. OMB has precluded the Services from entering into new Limited Liability Company (LLC) partnerships and scoring for future unaccompanied housing and lodging projects are only eligible for scoring exceptions on a case-by-case basis. This change in scoring treatment has greatly limited the ability of the Federal Government to enter into public-private partnerships and is one of the greatest limiting factors in expanding partnerships across the DoD and federal government.