



# RCI, PAL and Army Housing Training

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## **TOP 10 IHP-CVD CONCERNS – AUGUST 2014**

Capital Ventures Directorate  
Office of the Deputy Assistant Secretary of the Army for  
Installations, Housing and Partnerships



# TOP 10 IHP – CVD CONCERNS

## Current Environment similar to “Changing the Oil While Driving Down the Road”

- Do More With Less
- No Backfills for Vacant Positions
- Added Missions
- Reorganizations

## Budgets, BAH, and Backlogs

- Sequestration
- Additional Reporting Requirements
- Scoring

## Top Ten IHP- CVD Concerns

- #10 Davis Bacon
- #9 Contractor Access to Post
- #8 Renewable Energy Projects
- #7 Future Scoring Rules
- #6 Rising Operating Costs
- #5 Bondholder Consents
- #4 Work Classification – CRR vs. Reinvestment Acct
- #3 BAH Reduction/Loss of Renters Insurance
- #2 Impact of Troop Reductions
- #1 Potential Requirement to Fund Reinvestment Accounts



# TOP 10 IHP – CVD CONCERNS

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## #10 DAVIS BACON

- **Army position has always been that the DFARs Standard with regard to Davis Bacon is applicable to Property Management activities.**
- **DFARs Standard says Davis Bacon applies when there is over 32 hours of work on a single work order or over 200 square feet of painting.**
- **Applicability of this standard is a point of contention with some of the RCI partners; Ms. Hammack committed to working with OSD and the other Services to find a common policy.**
- **Two meetings were held over the past 90 days with all Services and OSD present. All positions were discussed and Army General Counsel submitted a formal opinion for consideration.**
- **OSD agreed to take lead for issuance of a policy regarding this topic.**



# TOP 10 IHP – CVD CONCERNS

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## **#9 CONTRACTOR ACCESS TO POST**

- **Partners being asked to verify US Citizenship for employees.**
- **Partners have employees who are not US citizens, but who are eligible to work in the US.**
- **Partners being told that this applies to subcontractors who have multi-year contracts.**
- **Negatively impacts grounds maintenance subcontractors who use H2-B workers.**



# TOP 10 IHP – CVD CONCERNS

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## **#8 RENEWABLE ENERGY PROJECTS**

- **Several partners have proposed roof-mounted photovoltaic projects.**
- **Army policy requires that all RECs generated be provided to the Army.**
- **RECs are transferred to the Army as consideration for amending the lease to include provisions for renewable energy development.**
- **Substitute RECs may be provided in lieu of RECs generated on the project.**
- **Energy generated by Photovoltaic Projects on RCI projects must be consumed by the project, not added to grid for other installation uses.**



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## #7 FUTURE SCORING RULES

*Initial indications are that OMB would like to make the following changes:*

- Any MHPI project approved prior to September 30, 2014 will continue to operate under the scoring rules described in the 1997 memorandum from then-OMB Director Raine -- recapitalization, credit assistance, and/or refinancing related to existing projects, but will not include any expansion of these existing projects.
- Any future MHPI project, including the expansion of existing projects, that is approved after September 30, 2014, will be subject to traditional scoring rules. These rules require both the public and private investment in the project to be fully scored in the year of authorization.
- Any MHPI project approved after September 30, 2014 should only be made available to service members and their families. Exceptions need to be approved by OMB.



# TOP 10 IHP – CVD CONCERNS

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## #6 RISING OPERATING COSTS

- **“Nice-to-have” Amenities are funded to the detriment of NOI/Reinvestment.**
- **Insurance costs rising.**
- **Utility costs and the impact of Utility Privatization weigh on project.**
- **Large, high cost staffs – often unnecessarily; Layering of regional staffs and corporate overhead is problematic.**
- **Transition from IDPs to Out-years places greater financial burden on Property Management.**
- **Managing expectations of Garrison is critical in light of future BAH changes.**



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## #5 BONDHOLDER CONSENTS

- **Bondholder Reps are becoming more anxious due to discussions about troop strengths and budgets.**
- **Bondholder Due Diligence prior to granting consents taking longer and becoming more detailed.**
- **Bondholder Reps charge a significant fee for providing a consent, regardless of complexity.**
- **Bondholder Reps appear to look out for their best interests, not necessarily the best interest of the Project company.**



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## **#4 WORK CLASSIFICATION – CRR vs. REINVESTMENT ACCOUNT**

- **Reinvestment Accounts were designed to fund out-year renovations and Construction.**
- **Partners are deferring CRR work, requesting to use Reinvestment Account to do CRR work.**
- **Army on guard to ensure long term sustainability of projects.**
- **Partners sometimes more interested in maximizing returns in the short term; not willing increase deposits to CRR accounts.**



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## #3 BAH REDUCTION/LOSS OF RENTERS INSURANCE

- **BAH Policy Changes could result in Out-of-Pocket Expense for Service Members.**
- **Move toward 5% OOP and loss of Renter's Insurance.**
- **Army will allow RCI Partners to charge Out-of-Pocket rate to RCI occupants.**
- **Legislation appears to not favor reductions in 2015 NDAA.**
- **Could be first step toward true Market Rents.**
- **Implementation would be challenging; how to avoid pricing JNCOs out of the portfolio.**



# TOP 10 IHP – CVD CONCERNS

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## #2 IMPACT OF TROOP REDUCTIONS

- **Army End Strength is drawing down to 450K, likely impact occupancy rates at some projects.**
- **Troop Strength reductions impact occupancy both on and off-post.**
- **As occupancy falls, rents will decrease and ultimately be reflected in BAH cuts.**
- **Some projects will house a greater percentage of Service Members.**
- **Some projects will need to be restructured as a result of drawdown.**



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## #1 POTENTIAL REQUIREMENT TO FUND REINVESTMENT ACCOUNTS

- Ambac Assurance Corporation (Ambac) is seeking remedy actions to minimize its pay-out liability.
- Ambac provides reserve contracts worth \$254.1M and credit enhancement at 17 Projects.
- As the Credit Enhancer, Ambac acts as the Bondholder Representative and has given waivers from remedy action requirements to date.



# Health of the RCI Portfolio

Project	Project Status	Occupancy Rate (July 2014)
<b>PORTFOLIO</b>		<b>90.9%</b>
Carson		92.9%
Hood		95.2%
JB Lewis-McChord		93.8%
Meade		88.9%
Bragg		87.7%
POM-NPS		93.1%
Stewart-HAAF		86.9%
Campbell		92.4%
Belvoir		95.5%
Irwin-Moffett-Parks		91.1%
Hamilton		87.6%
Detrick-Walter Reed		94.1%
Polk		87.6%
Hawaii		94.3%
Eustis-Story		95.6%
Sam Houston (JB San Antonio)		93.7%
Leonard Wood		92.2%
Drum		95.2%
Bliss WSMR		87.6%
Benning		82.1%
Leavenworth		93.4%
Rucker		85.4%
Carlisle-Picatinny		69.5%
Gordon		93.0%
Riley		91.9%
Redstone		91.2%
Knox		76.6%
Lee		94.7%
West Point		94.2%
Jackson		88.9%
Sill		95.9%
Yuma-Huachuca		92.1%
Wainwright-Greely		92.6%
Aberdeen PG		92.8%

Project Status Legend:  
■ - Meeting or Exceeding Pro Forma Expectations  
■ - Temporarily Trailing Pro Forma Expectations  
■ - Trailing Pro Forma Expectations