



# BAH Analysis: Impact to RCI

**Housing the Force**

UNCLASSIFIED

12 August 2015



# BAH Facts and RCI Impacts



- BAH is intended to cover median market rents and average local utilities expenditures by location and grade, reduced by the national average out-of-pocket expense per grade determined by OSD
- Military Compensation and Retirement Modernization Commission found the housing allowance determination for military members to be fair and identified no changes
- To slow compensation cost growth, the 2015 BAH incorporated two rate computation changes:
  - SecDef decision to eliminate renter's insurance from the calculations, basing the 2015 BAH rates solely on the local costs of rent and household utilities in each military housing area (MHA)
  - The Fiscal Year 2015 National Defense Authorization Act reintroduced a member cost-sharing element/out-of-pocket expense - 1% decrease from the surveyed rate for next five years
- Current BAH reflects a 2% BAH reduction from the surveyed amount with possibility for additional incremental reductions over three years
- Cost savings calculations are based on estimated changes in housing costs; if costs rise faster than expected, out-of-pocket % implementation rises faster
- Individual rate protection ensures BAH received by Service Members does not decrease unless they
  - PCS to a new duty station,
  - Demotion or
  - A change in their dependency status



# BAH Facts and RCI Impacts



- Private debt taken by the RCI Project Companies is the major source of initial development funding, with equity investments to bridge funding gaps
  - RCI Project debt is NOT backed by the full faith and credit of the U.S. Government
  - Limited exception at three RCI Projects if installation troop strength falls below threshold levels (subject to the terms of a fully-Scored government loan guarantee)
- Approximately 70% of Military Families at Army installations in the U.S. and U.S. territories live off-post
- RCI Projects operate as on-post rental communities that compete with their respective local housing markets.
- Mandatory assignment is not available under RCI due to OMB Scoring rules
- Current OMB guidance requires that future borrowing by Projects (to cover deficits in Re-investment Account) will trigger 100% budget scoring.



## ASA, IE&E Policy Addressing Cuts to BAH

- The 2015 National Defense Authorization Act (NDAA) allowed Service Member cost-sharing elements, starting with the 2015 Basic Allowance for Housing (BAH) rates.
- Annually the DASA (IH&P) issues guidance on based on the short and long-term financial impact of the current and probable future cuts to BAH on the RCI Projects,
- Approval for any increase in rent above the National Out-of-Pocket requires a request through the RCI Major Decision process to the DASA (IH&P). Proposed approvals will be reviewed by the CSA and SECARMY.
- Prior to increasing rent above applicable BAH rates, Projects will ensure prior notification to the installation leadership and tenants, in accordance with applicable state and or local laws.



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
FOR INSTALLATIONS, ENERGY, AND ENVIRONMENT  
110 ARMY PENTAGON  
WASHINGTON, DC 20310-0110

JAN 21 2016

Mr. Phil Cowley  
Clark Realty  
4402 Wilson Boulevard, Suite 600  
Arlington, VA 22203

Dear Mr. Cowley:

Recently, the Defense Travel Management Office (DTMO) released the National Out of Pocket Rates for calendar year 2016. The Rates reflect the Department of Defense's implementation of Section 603 of the Fiscal Year 2016 National Defense Authorization Act. Section 603 authorizes an adjustment in the percentage of average monthly housing costs used by DTMO to calculate BAH rates.

As a result of the implementation of Section 603, BAH rates for calendar year 2016 will on a national basis be approximately 2% less than the rates that would have otherwise applied. Previously you were informed that the Army would review any such reductions in BAH rates to determine if it would consent to Residential Community Initiative Projects charging additional rent up to the amount of the Out of Pocket Rate applicable to each Soldier residing in the Projects' housing.

After careful consideration by senior leadership, the Army has determined that it will not issue a blanket consent that enables Projects to charge Soldiers rent in excess of their BAH for calendar year 2016. A Project Company may, however, individually seek Army consent by submitting a request accompanied by a thorough business case analysis which convinces the Army that increasing rents paid by Soldiers above their respective BAH is necessary to insure the Project's long term financial viability.

Please be aware that the Army strongly prefers that Projects not charge any Soldier rent above their respective BAH. Moreover, under no circumstance, will the Army consent to Projects charging a Soldier assigned to housing rent above the Soldier's BAH. Accordingly, my staff is available to assist in identifying ways to eliminate the need for above BAH level rent by reducing Project expenses and increasing housing occupancy rates.

Again, I thank you and those you represent for providing quality housing to our Soldiers and Families.

Sincerely,

Paul D. Cramer  
Deputy Assistant Secretary of the Army  
Installations, Housing and Partnerships



# OSD Policy Addressing Cuts to BAH



## OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

3400 DEFENSE PENTAGON  
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AUG 27 2015

ENERGY,  
INSTALLATIONS  
AND ENVIRONMENT

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS,  
ENERGY AND ENVIRONMENT)  
ASSISTANT SECRETARY OF THE NAVY (ENERGY,  
INSTALLATIONS AND ENVIRONMENT)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(INSTALLATIONS, ENVIRONMENT AND ENERGY)

SUBJECT: Applying Basic Allowance for Housing Reductions to Privatized Housing

In 1996, in response to the inadequate condition and high costs of military housing, Congress authorized the Military Housing Privatization Initiative (MHPI). Since then, the Department has privatized over 200,000 military homes and eliminated inadequate homes. The quality of life in on-base communities has greatly improved for our military families. Families choosing to live in privatized housing typically pay their Basic Allowance for Housing (BAH) as rent which serves as the primary revenue stream for the MHPI project.

Two significant changes to the BAH went into effect on January 1, 2015. These changes apply regardless of whether the member occupies housing that is privatized.

- First, based on the recent amendment of section 403(b)(3) of title 37, United States Code, by the Fiscal Year 2015 National Defense Authorization Act, a member cost-sharing element (i.e., out-of-pocket expense) of 1 percent of the national average monthly cost of adequate housing for members of similar grade and dependency status was introduced.
- Second, renter's insurance was eliminated as a housing expense covered by the BAH. The impact of this action decreased BAH, on average, about 0.9 percent.

As a result, the MHPI project traditional formula of setting rents equal to service member BAH rates could reduce project revenue and thereby produce revenue shortfalls. Over time, these reductions could create shortfalls that in turn could lower the quality of homes in our MHPI communities. In order to prevent a return to the inadequate housing conditions that existed at the beginning of MHPI, the Military Departments (MilDeps) must review their privatized housing projects and business agreements; and consider changes to the rental arrangements to ensure the continued quality of privatized housing.

In response to the member cost-sharing element introduced to BAH rates, the MilDeps should work with their privatization partners/owners to adjust rents and leases as appropriate, so that residents of privatized housing bear out-of-pocket expenses similar to service members/military families living on the local economy. The MilDeps will also need to take BAH rate protection into account as they review each MHPI project to determine the optimal transition plan for that location. Service members will receive individual BAH rate protection

until their status changes due to Permanent Change of Station, reduction in paygrade, or change in dependent status. Rate protection prevents decreases in housing allowances due to the incorporation of an out-of-pocket expense, the removal of renter's insurance, declining rental/utility prices in the area, or any combination thereof. This ensures that members who have made long-term commitments in the form of a lease or contract are not penalized if the area's housing costs decrease.

In response to the elimination of the renter's insurance portion of the BAH, the MilDeps may negotiate adjustments with the privatization partners/owners to include ending the automatic insurance provided as part of the lease arrangements with military tenants. Because BAH for rate-protected members will continue to include a renter's insurance element, adjustments should require partners/owners to provide a benefit of corresponding value to the renter's insurance portion of the BAH for such members living in privatized housing under a lease they executed prior to January 1, 2015. Individual projects may have different solutions; the adjustment could require partners/owners to continue renter's insurance coverage for such rate-protected members, to reimburse such members for the renter's insurance portion of the BAH that was contributed towards rent on a monthly basis, or to implement another means to provide such members the benefit of the renter's insurance portion of their BAH (e.g., provide for free the swimming pool membership that other military tenants must pay for). Your housing management offices should make every effort to communicate changes in renter's insurance coverage and BAH changes to all service members to ensure they have information conveying the benefits of investing in renters insurance and the consequences of not having renters insurance.

The MilDeps should complete a thorough review of their privatized housing portfolios and, by September 30, 2015, provide a report to my office outlining any effects of the BAH changes on their portfolios, along with planned solutions. Should you have questions, my point of contact is Ms. Patricia Coury, Deputy Director, Facilities Investment & Management. She can be reached at (703) 571-9077 or [patricia.l.coury.civ@mail.mil](mailto:patricia.l.coury.civ@mail.mil).

Performing the Duties of the Assistant Secretary of Defense  
(Energy, Installations and Environment)

cc:  
ACSIM  
CNC  
OPNAV N4  
HQ USAF/A4  
DCMC I&L



# 2016 BAH Rates



Project	Partner	Weighted Average BAH		
		2015	2016	Var (%)
Fort Gordon	BBC	\$1,204	\$1,319	9.6%
JB Lewis-McChord	EQR-Lincoln	\$1,513	\$1,644	8.6%
Fort Lee	Hunt	\$1,478	\$1,573	6.4%
Fort Sam Houston	Lincoln	\$1,671	\$1,751	4.8%
Carlisle Barracks / Picatinny Arsenal	BBC	\$2,423	\$2,532	4.5%
West Point	BBC	\$3,252	\$3,395	4.4%
Fort Belvoir	Clark	\$2,531	\$2,642	4.4%
Fort Campbell	Lend Lease	\$1,398	\$1,459	4.3%
Fort Huachuca / Yuma PG	Michaels	\$1,077	\$1,123	4.3%
Fort Meade	Corvias	\$2,288	\$2,383	4.1%
Redstone Arsenal	Hunt	\$1,660	\$1,713	3.2%
Fort Carson	BBC	\$1,439	\$1,479	2.8%
Fort Leavenworth	Michaels	\$1,577	\$1,621	2.8%
Fort Detrick / WRAMC	BBC	\$2,084	\$2,136	2.5%
Fort Bragg	Corvias	\$1,259	\$1,288	2.4%
Presidio of Monterey / NPS	Clark	\$2,618	\$2,678	2.3%
Fort Polk	Corvias	\$1,108	\$1,129	1.9%
Fort Irwin / Moffett FAF / Parks RFTA	Clark	\$1,444	\$1,466	1.5%
Fort Rucker	Corvias	\$1,263	\$1,282	1.4%
Fort Jackson	BBC	\$1,585	\$1,598	0.8%
Fort Bliss / WSMR	BBC	\$1,317	\$1,327	0.7%
Fort Stewart / HAAF	BBC	\$1,408	\$1,413	0.3%
Fort Drum	Lend Lease	\$1,591	\$1,589	-0.1%
Fort Knox	Lend Lease	\$1,274	\$1,270	-0.3%
Fort Wainwright / Fort Greely	Lend Lease	\$1,928	\$1,921	-0.4%
Fort Hamilton	BBC	\$3,985	\$3,967	-0.5%
Fort Hood	Lend Lease	\$1,222	\$1,215	-0.6%
Fort Leonard Wood	BBC	\$1,166	\$1,139	-2.4%
Fort Sill	Corvias	\$1,173	\$1,143	-2.5%
Aberdeen PG	Corvias	\$1,991	\$1,930	-3.1%
Fort Riley	Corvias	\$1,296	\$1,252	-3.3%
Fort Benning (Includes Camp Merrill)	Clark	\$1,456	\$1,382	-5.1%
Fort Eustis / Fort Story	BBC	\$1,650	\$1,564	-5.2%
Hawaii	Lend Lease	\$3,168	\$2,894	-8.6%
<b>Totals</b>		<b>\$ 1,656</b>	<b>\$ 1,654</b>	
<b>Percentage</b>				<b>-0.1%</b>

- Does not account for Individual Rate Protection or other rental rate concessions

National Monthly Out of Pocket			
	1% Absorption (2015)	2% Absorption (2016)	5% Absorption (2016 Rates)
Pay Grade	With Dependents	With Dependents	With Dependents
O07	\$27	\$57	\$143
O06	\$26	\$54	\$135
O05	\$25	\$51	\$128
O04	\$23	\$48	\$120
O03	\$20	\$39	\$98
O02	\$17	\$33	\$83
O01	\$15	\$30	\$75
O03E	\$21	\$42	\$105
O02E	\$20	\$39	\$98
O01E	\$19	\$39	\$98
W05	\$22	\$45	\$113
W04	\$21	\$42	\$105
W03	\$20	\$39	\$98
W02	\$18	\$36	\$90
W01	\$16	\$33	\$83
E09	\$21	\$42	\$105
E08	\$19	\$39	\$98
E07	\$18	\$36	\$90
E06	\$17	\$36	\$90
E05	\$16	\$33	\$83
E04	\$14	\$30	\$75
E03	\$14	\$30	\$75
E02	\$14	\$30	\$75
E01	\$14	\$30	\$75

## Housing the Force

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# Impact of Troop Reductions



- Reductions in troop strength have and are anticipated to continue to negatively impact occupancy at some RCI Projects through direct demand reduction and/or softening of off-post rental markets
- 15 RCI Projects were evaluated where it was announced in July 2015 that the total personnel would be reduced by 5% or greater

Projected Debt Coverage Ratios – BAH Reduction Scenario					
Project	2016	2017	2018	2019	2020
Aberdeen	2.11	1.68	1.52	1.35	1.23
Belvoir	1.33	1.31	1.28	1.23	1.24
Benning	1.54	1.29	1.26	1.22	1.25
Bliss-WSMR	1.42	1.37	1.28	1.24	1.26
Hawaii	1.85	1.76	1.72	1.72	1.68
Hood	1.32	1.25	1.19	1.11	1.14
Huachuca-Yuma	1.18	1.12	1.06	1.01	1.03
Irwin-Moffett-Parks	1.16	1.13	1.00	0.98	0.97
Jackson	1.25	1.22	1.19	1.16	1.18
Leonard Wood	1.41	1.35	1.28	1.22	1.24
Lewis-McChord	1.55	1.50	1.44	1.36	1.37
Polk	1.48	1.40	1.31	1.22	1.24
Rucker	1.11	1.05	0.99	0.94	0.95
Sam Houston	1.55	1.49	1.42	1.35	1.38
Stewart-HAAF	1.50	1.44	1.39	1.33	1.36

Projected Debt Coverage Ratios – BAH & Troop Reduction Scenario					
Project	2016	2017	2018	2019	2020
Aberdeen	1.69	1.33	1.17	1.01	0.90
Belvoir	1.30	1.27	1.25	1.20	1.21
Benning	1.10	0.92	0.89	0.85	0.88
Bliss-WSMR	1.33	1.28	1.19	1.15	1.18
Hawaii	1.70	1.61	1.58	1.57	1.54
Hood	1.01	0.95	0.89	0.82	0.85
Huachuca-Yuma	1.18	1.12	1.05	1.01	1.03
Irwin-Moffett-Parks	1.07	1.04	0.94	0.92	0.93
Jackson	1.23	1.19	1.16	1.13	1.15
Leonard Wood	1.19	1.13	1.07	1.01	1.04
Lewis-McChord	1.45	1.40	1.35	1.26	1.28
Polk	1.33	1.24	1.16	1.07	1.10
Rucker	0.98	0.92	0.87	0.81	0.83
Sam Houston	1.45	1.39	1.32	1.26	1.29
Stewart-HAAF	1.33	1.28	1.23	1.17	1.20



# RCI Waterfall Utilization



- Tenant waterfalls are being engaged in RCI Projects as a risk mitigation tool to increase demand (31 of 34 RCI Projects have begun using the tenant waterfall to a degree)

		RCI TENANTS FOR THE QUARTER ENDING 30 SEPTEMBER 2015							
PROJECT	PARTNER	HOMES OCCUPIED	MILITARY FAMILIES	SINGLE MILITARY	FOREIGN	DoD / FEDERAL CIVILIANS	RETIREEES	NON-DoD / FEDERAL CIVILIANS	TOTAL OTHER
Aberdeen	Corvias	687	397	24	-	204	62	-	290
Belvoir	Clark	2,086	2,070	16	-	-	-	-	16
Benning	Clark	3,091	2,744	298	30	9	10	-	347
Bliss / WSMR	BBC	4,299	4,152	25	21	81	19	1	147
Bragg	Corvias	5,677	5,639	-	-	26	12	-	38
Campbell	Lend Lease	3,966	3,942	9	-	10	5	-	24
Carlisle / Picatinny	BBC	330	306	16	2	6	-	-	24
Carson	BBC	2,991	2,991	-	-	-	-	-	-
Detrick / WRAMC	BBC	530	346	16	-	28	48	92	184
Drum	Lend Lease	3,534	3,510	-	-	20	4	-	24
Eustis / Story	BBC	1,027	1,024	-	-	1	2	-	3
Gordon	BBC	997	948	5	-	4	40	-	49
Hamilton	BBC	217	134	19	-	24	23	17	83
Hawaii	Lend Lease	7,349	7,100	98	-	116	35	-	249
Hood	Lend Lease	5,094	5,073	21	-	-	-	-	21
Huachuca / Yuma	Michaels	1,175	1,047	21	2	58	4	43	128
Irwin / Moffett / Parks	Clark	2,713	2,441	184	2	71	10	5	272
Jackson	BBC	808	699	-	-	39	70	-	109
Knox	Lend Lease	1,876	1,410	118	-	160	96	92	466
Leavenworth	Michaels	1,582	1,381	82	98	15	6	-	201
Lee	Hunt	1,405	1,405	-	-	-	-	-	-
Leonard Wood	BBC	1,628	1,611	-	4	4	9	-	17
Lewis	EOR	4,913	4,870	41	2	-	-	-	43
Meade	Corvias	2,382	1,897	35	-	293	155	2	485
Polk	Corvias	3,127	2,855	237	2	25	8	-	272
POM / NPS	Clark	2,097	1,387	129	42	132	37	370	710
Redstone	Hunt	327	107	17	-	97	80	26	220
Riley	Corvias	3,756	3,755	-	1	-	-	-	1
Rucker	Corvias	1,281	1,087	150	18	8	18	-	194
Sam Houston	Lincoln	869	862	4	3	-	-	-	7
Sill	Corvias	1,594	1,580	-	13	1	-	-	14
Stewart / HAAF	BBC	3,172	3,092	-	-	19	54	7	80
Wainwright / Greely	Lend Lease	1,740	1,727	-	-	3	2	8	13
West Point	BBC	703	658	15	6	20	3	1	45
<b>TOTAL</b>		<b>79,023</b>	<b>74,247</b>	<b>1,580</b>	<b>246</b>	<b>1,474</b>	<b>812</b>	<b>664</b>	<b>4,776</b>
<b>PERCENTAGE OF HOMES OCCUPIED</b>			<b>94%</b>	<b>2%</b>	<b>0%</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>	<b>6%</b>

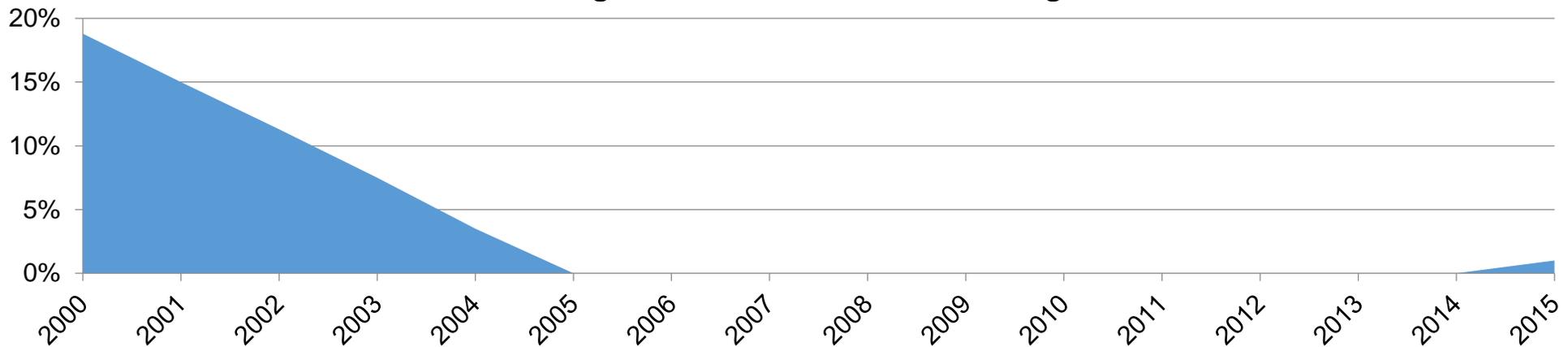


# Out-of-Pocket Expenses



- In 2000, the SecDef committed to reducing out-of-pocket expense for the median Service Member to zero by 2005 (Cohen Initiative)
- Enactment of the FY2001 NDAA provided the SecDef the required authority
- After implementation of the Cohen Initiative began:
  - \$8.6B of RCI Project debt obligations incurred
  - \$13.5B in total development costs

**Average BAH Out-of-Pocket Percentage**



**RCI Family Housing Projects Transferred/Converted**

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Projects	0	1	2	5	6	5	8	1	3	3	0	0	0	0	0	0



# Case Study – Fort Jackson



RCI Partner	Balfour Beatty Communities	IDP Total Development Cost	\$181.5M
Transfer Date	August 2008	IDP Total Sources	
IDP End Date	February 2015	Private Debt	\$103.5M
Transfer Inventory	1,162	Gov't Equity	\$58.9M
IDP Development Scope		Partner Equity	\$3.0M
New Construction	610	Additional Sources*	\$16.1M
Major/Medium Renovations	32	* Includes Excess Cash Flow, Interest Income & Land Sale Proceeds	
Minor Renovations	0		
Demolitions/Loss to Combination	922		
End-State Inventory	850		

Reinvestment Account Deposits (2015-2039)	
Baseline Scenario Projection	\$92.2M
Scenario Projection with 5% BAH Reduction in 2016	\$65.5M
Variance (\$)	(\$26.7M)
Variance (%)	(29.0%)



# Discussion



- Majority of projects cannot absorb 5% out-of-pocket without major impacts to reinvestment account funding
- Need to ensure Army Leadership understands this issue stems from DoD decision
- Impacts of BAH cuts seen in projects thus far:
  - Reduced pool hours
  - Reduction of maintenance and community operations staffs
  - Less funding for reinvestment account
- Ensure that BAH surveys are accurate and reflect the type of housing that Service Members seek.
- Seek RCI partners assistance in data gathering (Navy model)
- Minimize impact of BAH cuts by opening the waterfall and maximizing occupancy