



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON DC 20301-3000



September 8, 1998

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS, LOGISTICS AND ENVIRONMENT)
ASSISTANT SECRETARY OF THE NAVY
(INSTALLATION AND ENVIRONMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(MANPOWER, RESERVE AFFAIRS, INSTALLATIONS
AND ENVIRONMENT)

SUBJECT: Payment of Utilities in Privatized Housing

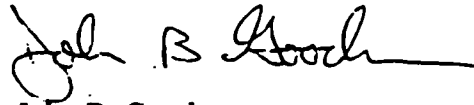
To implement the housing privatization program effectively, the Military Departments must propose financially viable projects to privatization developers; provide quality, affordable housing for service members; and achieve energy efficiency of the housing units. Together, these objectives require appropriate treatment of the payment of utilities. This memorandum provides policy for the payment of utilities in Military Housing Privatization Initiative (MHPI) projects.

MHPI projects use the service member's Basic Allowance for Housing (BAH) as the primary source of funds used to pay for housing expenses (rent + utilities). All housing privatization projects under this program must define the amount of rent revenue available to the developer by subtracting from the BAH a predetermined amount set aside for utilities. This allowance for utilities would permit payment of utilities from within the BAH, either directly by the member or passed through the developer. This method will ensure that developers can appropriately estimate the amount of cash flow used to finance housing privatization projects. Alternatives that make the developer fully responsible for utilities introduce uncertainty into this rental stream and would unnecessarily reduce the quality or scope of a project.

The utilities allowance should be calculated based on a reasonable estimate of average consumption levels for that geographic area. It should also include a financial buffer to ensure that rent and utilities generally remain within BAH. Service members who conserve utilities would be able to keep the difference between the allowance and the actual cost, whereas those who exceed the allowance would pay out-of-pocket for excessive usage. Contracts should include a provision to review actual consumption rates after initial occupancy and allow for adjustment of the utility allowance accordingly. When developing MHPI project solicitations, DoD's energy conservation goals and objectives should be established as a minimum performance standard to add an additional incentive to build energy efficient housing.



In order to develop the details of calculating these allowances and devising payment schemes, I am convening a working group on payment of utilities, chaired by Joseph Sikes, Director of Competitive Sourcing and Privatization. The Military Services have demonstrated many innovative methods to handle this issue in their housing privatization projects and I would like to capture the best of those. Please provide a representative or representatives of your Service to Joseph Sikes at (703) 607-3207.



John B. Goodman
Deputy Under Secretary
(Industrial Affairs and Installations)

cc: DFAS
USD (Dep Comptroller (Prog/Budget))
General Counsel, DoD