

THE MAGAZINE OF MILITARY HOUSING, LODGING & LIFESTYLES

DEFENSE COMMUNITIES

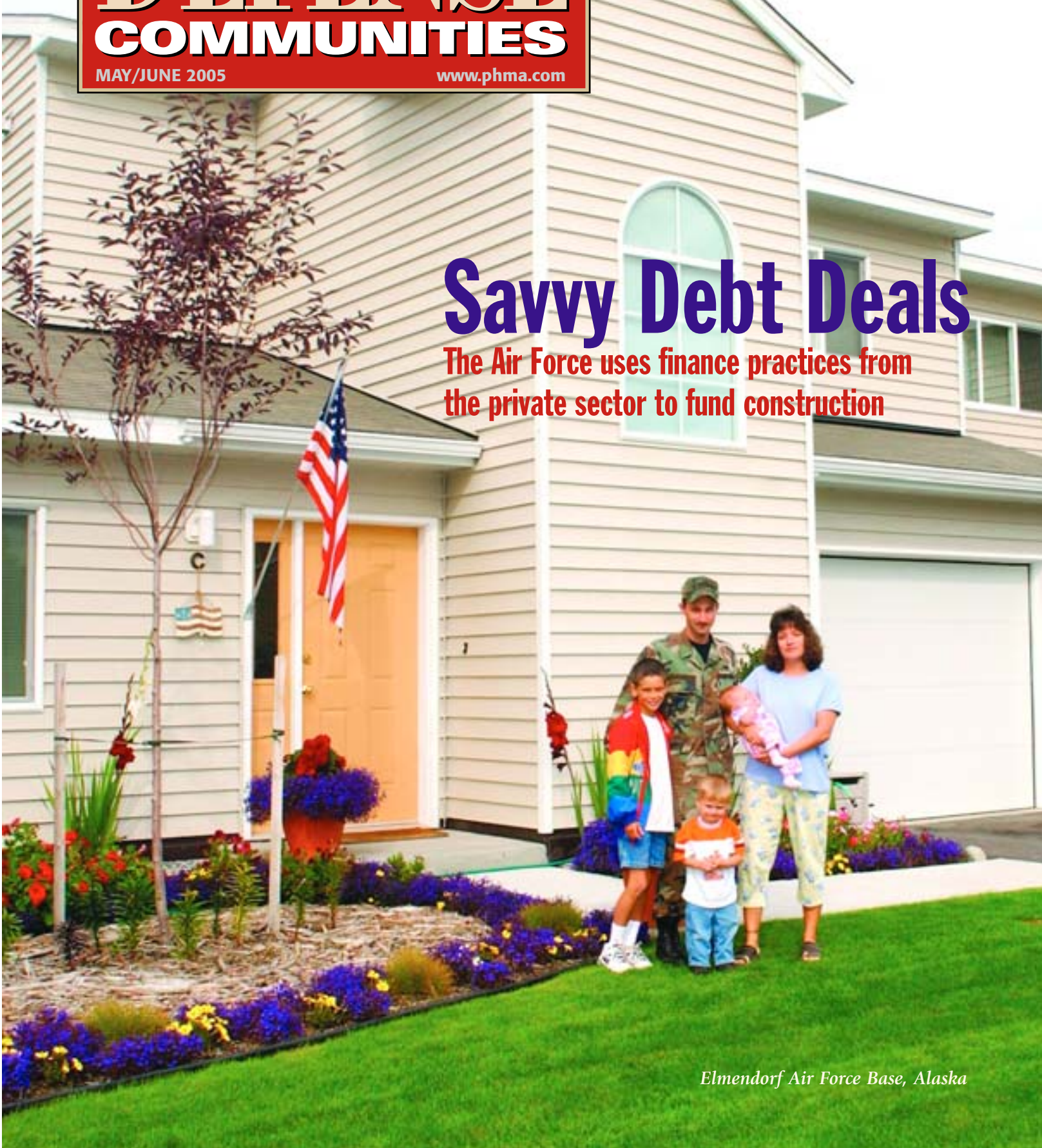
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ALSO INSIDE

- ◆ Lessons Learned in Privatization
- ◆ Building in the Arctic Circle
- ◆ Preserving Historical Quarters

Savvy Debt Deals

The Air Force uses finance practices from the private sector to fund construction



Elmendorf Air Force Base, Alaska

CONTENTS

May/June 2005 ♦ Volume 17, Number 3 ♦ www.phma.com

FEATURES

- 20 Savvy Debt Deals Fund Construction**
The Air Force borrows finance practices from the private sector and structures privatization deals as real estate transactions.
By Lieutenant Colonel Jason Dudjak
- 23 Privatization Teaches Business Lessons**
The RCI portfolio has had a strong performance, but there have been lessons along the way.
By Don Spigelmyer and Barbara Sincere
- 28 Protecting Its Prized Possessions**
This base uses state-of-the-art technology to repair its historical homes and makes it a priority to preserve these gems.
By DeAnne E. Edlund
- 32 Building On Top of the World**
You think your climate presents construction challenges? Try building in the Arctic Circle.
By JoAnne Castagna, Ed.D.



ALSO INSIDE



- 6 Let the Storms Rage**
Thanks to good planning, even three hurricanes can't deter this team's project schedule.
By John D. Fouser
- 10 Power Up with the Sun**
Solar power and unlimited long-distance phone service at a heavily reduced cost are two possibilities for military homes in Hawaii.
By Ryan Mielke
- 14 Shrinking Commutes**
The Navy plans to sell its Capehart property to the city of Seattle and build a new community closer to its families' jobs.
By Ari Kramer
- 18 Focus on Families**
This new military community in Laurel Bay, South Carolina, celebrates with its children.
By Katie Smith and Cindy Green

34

Assessing Roads

Road maintenance and repair decisions are a snap with the new Micro PAVER software, which includes GIS capabilities.

By Dana Finney

36

Lead with Passion

Sometimes you need to adjust your attitude and turn a negative outlook into a positive one.

By Mark Towers

37

Update on BAH

Your military housing office plays a key role in determining the BAH in your area.

By Ted Nakata

38

Think Modular

When the Fort Lewis team converted to modular products, it was able to include unplanned upgrades and stay on schedule.

By Boyd Lucas



40

Lock Up Security

Misplaced keys can be a headache. But key-management programs leave housing managers at the Naval Academy and Fort Campbell smiling.

By Michael Paquette

42

Housing Market Booms

Read about trends in multifamily and single-family housing.

By Frank Kaleba, PE

44

Never Can Say Goodbye

With NSA Naples' help, teenager Maurizio Moscatiello practices his English to talk to his American doctors.

By Michaelle Sultenfuss and Tony Caliendo

DEPARTMENTS

- 4** President's Message
- 47** Association News
- 51** Military Marketplace
- 52** Corporate Sustaining Members
- 56** Advertising Index

REQUEST FOR EDITORIAL

Please send your articles for *Defense Communities* to Birgett Seymour at phmadefensecommunities@earthlink.net.

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About the Cover

An airman and his family show off their townhome and colorful yard at Elmendorf AFB, Alaska. Through privatization and private-sector finance techniques, 2,022 new units were built at Elmendorf for \$337 million. For the full story, see page 20.



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Savvy Debt Deals Fund Construction

The Air Force uses private-sector finance practices to fund the rebuilding of entire communities.

By Lieutenant Colonel Jason Dudjak

Housing privatization continues on a robust pace within the Air Force, where it is one of two methods being used to meet the DoD requirement to address inadequate housing in the continental United States by 2007. Varying from the other services, the Air Force is taking a unique approach in an effort to eliminate its inadequate housing.

In conjunction with the traditional Military Construction (MILCON) program, the Air Force is using housing privatization to eliminate the 23,600 inadequate houses in the inventory at the start of FY 06. Ultimately, the Air Force expects to privatize a total of 46,000 housing units. In the past, the Air Force used the MILCON program to fund housing projects to renovate and replace the oldest of the housing units at a base. These housing projects were unable to replace all of the inadequate houses on the desired timeline, and the MILCON projects were few and far between because of higher funding priorities. The best case scenario for housing replacement was a 12-year time



period that didn't meet the OSD's Defense Planning Guidance.

The Air Force uses housing privatization or MILCON to provide the number of houses defined in the Housing Requirements and Market Analysis (HRMA). The HRMA provides on-base housing that the local community can't absorb. Instead of replacing houses one for one, project owners are rebuilding entire communities at the latest HRMA numbers with community enhancements such as playgrounds, swimming pools, and community centers.

The logical question follows: How is this being funded? The answer: The Air Force is using the private-sector practice of debt-financed construction. In a debt deal, the Air Force requires prospective developers to secure private-sector loans to renovate or rebuild 100 percent of the inadequate houses at a privatized base. The private-sector loan is secured and repaid based on rental income of all of the base military housing units. The rental income for an individual unit is the assigned military member's Basic Allowance for Housing (BAH).

In the event that a prospective project owner cannot secure enough private financing to bring all of the units up to market standard, the Air Force may arrange for a government direct loan from the U.S. Treasury to cover any shortfalls in development funding. The Office of Management and Budget structures the terms of the loan with a 30-year repayment period by the developer back to the U.S. Treasury. The prospective developer is responsible for repaying all loans in full, whether to private lenders or the U.S. government.

Another innovative approach used by Air Force housing privatization is to structure the privatization deal as a real estate transaction. The Air Force conveys all housing to the developer (called project owner after real estate closing), who owns all the housing on Air Force leased property. The Air Force ground lease to the developer lasts for a 50-year period. After that time period, the Air

In a debt deal, the Air Force requires prospective developers to secure private-sector loans to renovate or rebuild 100 percent of the inadequate houses at a privatized base.

Force and the project owner can choose to extend the lease or the process can start over again.

These projects contain two keys to success: military members paying rent to the project owner and military occupancy not being guaranteed. The housing must be high quality—high enough to attract military members away from commercially available housing on the local economy. Rent prices are based on the amount the military member receives as BAH, which is paid to the developer through an allotment to a financial lockbox. The developer does not directly receive the rent payments.

Instead, the lockbox, operated by an independent financial institution, pays all project expenses such as maintenance and operating costs, and only when all bills are paid, do project owners receive their profits. Project owners provide a property manager to handle all operations, maintenance, construction, and repairs during the 50-year lease.

Better Houses Sooner

Unlike MILCON housing, housing privatization results in fast revitalization of the entire community and not just replacement of individual housing units. This revitalization saves the Air Force money because developers are much more efficient in housing construction because they are able to buy housing materials and construction services in bulk and they have much lower administration costs. Also, as the saying goes, time is money, so developers strive to reduce the renovation and construction time due to vast fluctuations in construction prices. The result is that Air Force members get quality housing faster than traditional government efforts, which is a win-win situation for both the project owner and the airmen.

Base	Number of Units	Date of Closing	Total Cost (\$M)	Estimated Gross Annual Revenue (\$M)
Buckley	351	2004	74	4
Dyess I	402	2000	31	4
Elmendorf I	828	2001	110	48
Elmendorf II	1,194	2004	227	30
Hanscom	784	2004	203	19
Hickam I	1,356	2005	298	26
Kirtland	1,078	2003	156	11
Lackland I	420	1998	43	5
Little Rock	1,200	2004	112	13
Moody	606	2004	53	5
Patrick	552	2003	99	8
Robins I	670	2000	57	8
Wright-Patt I	1,536	2002	109	16
Total	10,977		\$1.6B (approx.)	\$197M

The Air Force expects to privatize a total of 46,000 housing units.

The Air Force has closed 13 privatization projects totaling 10,977 housing units on 12 different bases. An additional 39 projects are in various stages of the privatization process. Typically, after closure, the construction of the new housing takes between three and seven years, depending on the base-specific requirements. The goal of every project is to ensure quality homes are provided to airmen and families as fast as possible after closing the deal. Airmen and their families usually are able to move into better housing in desirable neighborhoods sooner than ever before.

New and renovated homes not only meet, but often exceed, DoD standards for square footage per unit. The larger sizes especially benefit the lower ranks, who usually cannot afford as much space off base at most duty locations. Typically, an on-base, privatized house for the lower enlisted ranks is 20 to 30 percent larger than what they can get off base for the same amount of BAH. For E1-E6 enlisted members, renovated three-bedroom houses must have a minimum of 1,490 to 1,760 square feet per unit.

Newly constructed homes often are larger than those that are renovated, but all houses meet or exceed DoD standards. Experience from past projects demonstrates that developers will build housing units that are competitive with the private sector, using local building codes and requirements, and this is what drives developers to build modern designs at the larger house size.

The Air Force is also looking forward to the housing needs of airmen of the future. At the midpoint of the 50-year lease, the Air Force requires project owners to again fully renovate and upgrade the housing units, ensuring they remain competitive with local market condi-



Through a privatization deal, 1,536 new and renovated homes were obtained at Wright-Patterson AFB, Ohio, for \$109 million.

tions. The project owners either will set aside money from the rent collected over 25 years to do whole house renovations, or they can refinance the deal and secure another private loan.

Bonus Features

In an effort to provide the best houses and communities to airmen, the Air Force includes a "desired features" list when sending out requests for proposals for housing privatization projects. The desired features are project additions specific to each base and are above and beyond the minimum project requirements.

The desired features are divided into four categories. The first three categories, which benefit the community, are: Community Development Plan, which includes features such as community swimming pools and jogging trails; New Construction/Renovation, which incorporates features such as laundry rooms and two-car garages; and Property Management, which specifies services such as 24-hour maintenance response and scheduling of routine maintenance during non-duty hours.

The fourth category, Financial, benefits the Air Force. This category suggests

that the developer provide 100 percent private-sector financing as well as provide the Air Force more money in the 25-year renovation account.

Prospective project owners have the opportunity to incorporate these desired features into their proposal to make their bids more competitive. Developer-added features provide extra incentive for airmen to want to live in new privatized housing, ensuring a high occupancy rate for the developer, which is a favorable situation for all parties.

The Air Force housing privatization initiative saves

the Air Force money, provides better houses to airmen and their families sooner, and allows project owners the opportunity for profitable projects. Its privatization program has provisions in place to provide for current and future housing needs and serves as a model for comprehensive and integrated military community planning. Larger, well-maintained modern homes with upgraded features are benefits our airmen have earned and deserve.

If you're a prospective project owner interested in learning more about the Air Force Housing Privatization Initiative, the Air Force is hosting a National Industry Forum in Chicago August 3-4, 2005. For more information, visit www.airforcehpevents.com. ■

Lt. Colonel Jason Dudjak is the Housing Privatization Execution Branch Chief of the Air Force Center for Environmental Excellence (AFCEE), Brooks City-Base, Texas. AFCEE is the Air Force Center for Housing Privatization Excellence and supports Air Force Major Commands and bases worldwide with housing privatization, design, and construction management services.

Bonar leaves *Defense Communities*

After 14 years, Sharon Bonar steps down; new editor named.

After 14 years of overseeing the editorial expansion and upgrade of *Defense Communities*, Editor Sharon Bonar will step down in order to dedicate more time to her family. The PHMA Board of Directors has named Birgitt Seymour, former Chief

Working with publishers Stratton Publishing & Marketing Inc., who began producing the magazine in late 1990 just prior to Bonar's term, Sharon Bonar not only broadened the scope of *Defense Housing* to *Defense Communities* to better reflect a changing profession but also helped gain more visibility and recognition for the military housing managers as key players in a changing military landscape.

Under her guidance, the magazine became more professional, both in content and appearance. Drawing on her own background and experience, Bonar worked diligently to ensure that the magazine represented the views of all branches of the services, and not only reported on the housing management profession, but anticipated and reported on upcoming changes, even if they were challenges. Additionally, Bonar oversaw the several redesigns and repositionings of the publication, focused on making the magazine more useful to readers and more easily accessible to busy professionals. The



PHMA's flagship publication was titled Defense Housing in 1983.

of Housing for the Installation Management Agency, Europe Region, as editor, taking over with the July/August edition of *Defense Communities*.

Bonar became editor in 1991 when the magazine was still known as *Defense Housing* and more narrowly focused in scope and distribution. Over the past 14 years, Bonar has reshaped the editorial, expanded the scope and coverage of the magazine, and helped lead PHMA's flagship publication to expanded recognition and member value. Repeatedly in 1998 and again in 2001, *Defense Communities* was honored for editorial and design excellence and awarded an Apex Award in a national publishing competition.



Defense Housing sports a new look in 1990.



Under Bonar's editorial direction, PHMA's flagship publication has evolved in scope, design, and distribution.

most recent redesign was launched in late 2004.

At the same time as the editorial was being repositioned, the magazine's advertising support has significantly expanded to better support the magazine's expenses and provide readers with more resources and information on products and services.

History of Excellence

Sharon Bonar has a history of setting high standards and achieving excellence throughout her career, which will be sorely missed. She started her career as a civil servant in the early 1970s at Whidbey Island, Washington. Her initial employment was not in housing, but the experience she gained prepared her well for subsequent assignments of ever increasing responsibilities in the field of housing management.

In 1983, as President of the Northwest Chapter, Bonar was honored by the association for "Most Outstanding Achievements for PHMA" in recognition of her successful efforts to conduct

the first regional training conference for housing professionals at Travis AFB, California. The following year, she received an award for "Outstanding

Over the past 14 years, Bonar has reshaped the editorial, expanded the scope and coverage of the magazine, and helped lead PHMA's flagship publication to expanded recognition and member value.

Housing Project Manager."

In 1985, Sharon Bonar left Whidbey Island to direct housing operation at Marine Corps Base Quantico, Virginia. Bonar gave her staff—for the first time—the opportunity to attend PHMA's Professional Development Seminars, and she successfully increased the grade structure of Housing Referral counselors. One of her former staff recently commented: "Sharon was a breath of fresh air in our office."

When she left Quantico, Bonar joined the Army Housing staff in Washington, D.C., where she established a mandatory program to centrally procure and fund the initial issue furnishings for all new and newly renovated Army barracks, a dramatic departure from Army philosophy of using old, existing stock to furnish new and newly renovated barracks. She also formed a furnishings review panel that ultimately resulted in well-defined manufacturing standards for barracks furnishings, as well as improved quality and durability. The program is still active with the original purchasing agent, the Corps of Engineers, Huntsville District.

In 1990, Bonar received the Deke Giles Award for outstanding service to PHMA. In 1996, she left the Army Housing Staff to return to Whidbey Island as Housing Director. The following year, PHMA again honored her with the Deke Giles Award for her untiring efforts and accomplishments.

Between 1996 and her retirement from civil service, Sharon Bonar, a visionary and forward thinker, realized that staff downsizing was inevitable and set about to posture her staff for the changes ahead. When she elevated the office standard and increased the staff's level of professionalism, her Command took notice and provided the support needed to make changes. Her entire staff became PHMA-certified, and she successfully increased the grade structure of her staff and transformed her office to a paperless organization.

In 2000, the PHMA Board of Directors provided initial funding to launch the Military Housing and Lodging Institute (MHLI). Bonar again rose to the occasion and agreed to serve as Vice President-West for this new

organization in addition to her duties as editor.

PHMA Welcomes Seymour

In May, Birgitt Seymour begins as editor of the magazine, bringing 25 years of housing experience to the job. During her career in military housing, Seymour has held positions ranging from Chief, Housing Referral Office, Rheinberg, Germany, to Chief, Unaccompanied Personnel Housing Branch, Military District of Washington (MDW), Fort Myer, Virginia; Chief of Family Housing Branch, MDW; Chief of Housing Management Division, MDW; ACSIM team leader for Unaccompanied Housing; and Chief of Housing for the Office of the Deputy Chief of Staff, Engineer, HQ U.S. Army, Europe (now Installation Management Agency, Europe).

Seymour has received numerous awards, including the prestigious Pace Award, personally presented by the Secretary of the Army, and the Founder's Award. In looking forward to the new assignment, Seymour said, "It is indeed an honor." ■



Historian Jennie Hibbert recalls PHMA's first member and first dues.

By Jennie Hibbert

THE IDEA FOR THIS ASSOCIATION WAS SHAPED IN MAY 1973 WHEN FOUR MEN HAD GATHERED together and were talking. Those four men—"Bob" E. S. Boyett, Neal F. Brown, Billy Ray E. Ring, and Walter T. Giles—discussed the idea of an association for housing managers. And so, IAPHM, the International Association of Professional Housing Managers, was formally established in July 1973.

On July 1, 1973, IAPHM sent out a letter addressed to "Dear prospective Charter Member." A modest fee of \$5 was charged for handling a new member's paperwork, and dues for the year were \$7.50.

The first person to sign up was John "Jack" Bowman of Charleston, South Carolina. Sometime later, it was decided that Billy Ray Ring should have the number one spot, so Bowman was given the number 00002.