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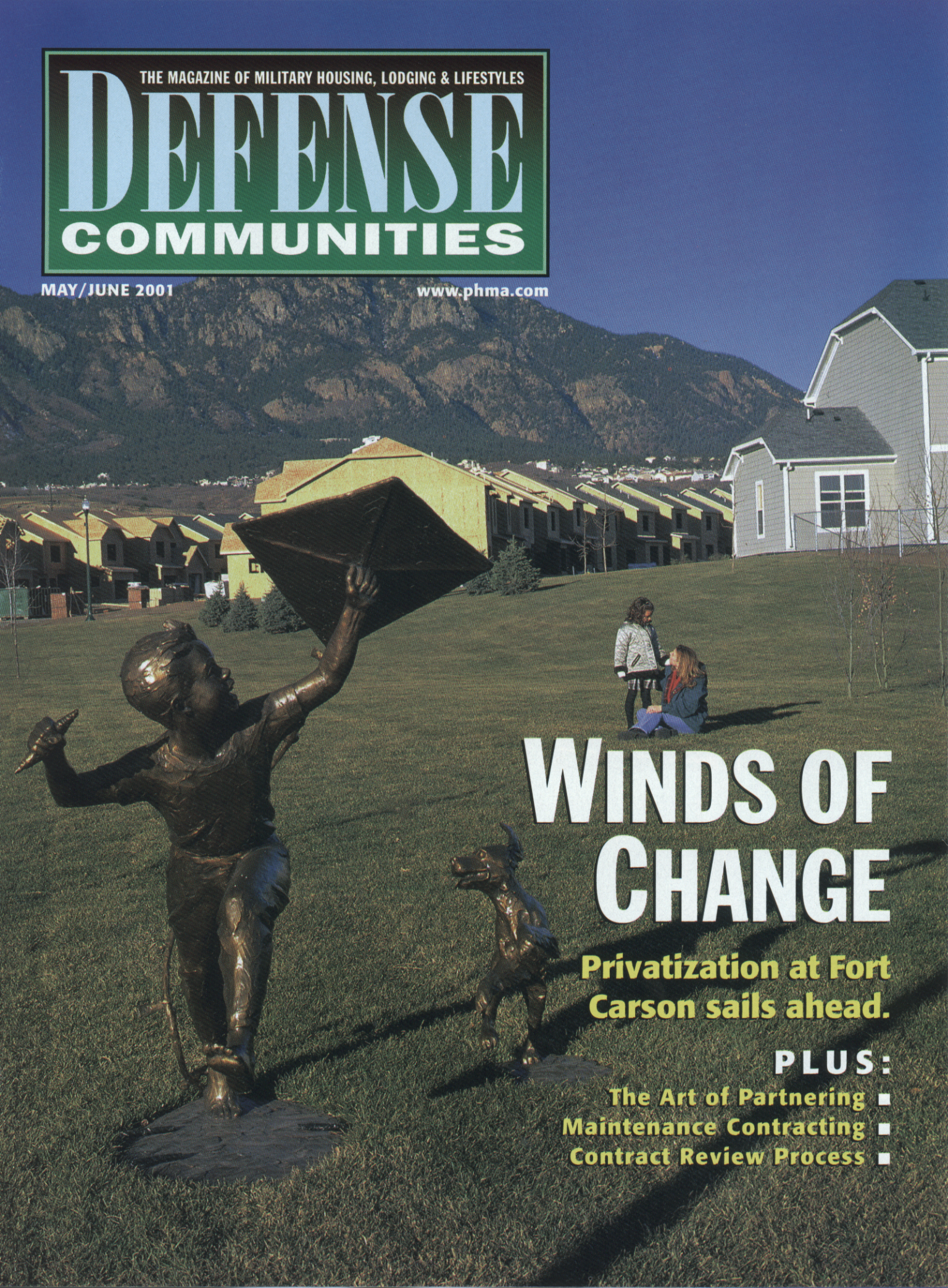


WINDS OF CHANGE

Privatization at Fort Carson sails ahead.

PLUS:

- The Art of Partnering
- Maintenance Contracting
- Contract Review Process

Fort Carson Housing Privatization

An update on the Army's largest in-construction privatization effort shows the project well underway with bright prospects for the future.

BY RONALD HANSEN, P.E.

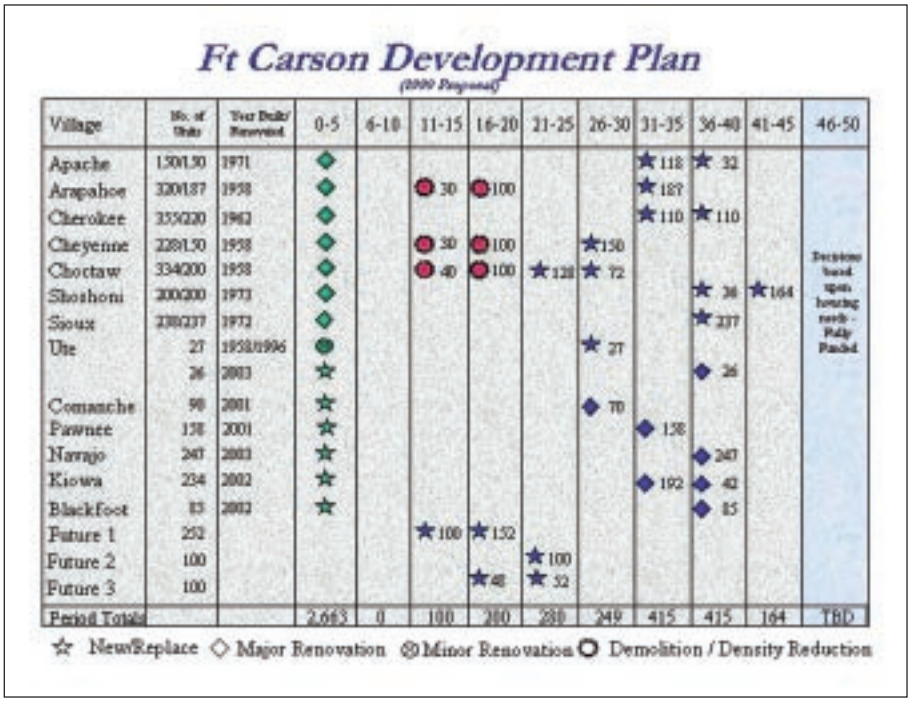
The word "privatization" has increased in significance in the housing community. The continued aging of the existing family housing stock, inadequate funding of maintenance programs, and increase in percentage of married service members with children have negatively impacted the traditional military family housing program. Development of another tool became more than essential—it was critical. One of these innovative ideas allows private industry to assist in solving the housing crisis to immediately and positively impact the quality and quantity of housing communities available to our service members and their families.

Privatization can quickly bring leveraged capital and development expertise to increase or improve military housing communities. The newness of the program and an inability to determine any secondary impacts of privatization on the traditional military housing program have slowed the process to a crawl. The award of several projects of various size and scope, including the Fort Carson Housing Privatization Project, is beginning to increase the understanding of the details and impacts of privatization and

should help move the program forward. The purpose of this article is to discuss some of the details of this project in the hope of increasing understanding, as well as to seek input on how to overcome some of the obstacles.

Fort Carson Family Housing L.L.C. (a limited liability company of the J.A. Jones' development arm, Regent Partners, Inc.) has been executing the Army's first privatization project at Fort Carson, Colorado, for the past year and a half. Together with the Fort Carson Army staff, we have taken great strides in improving the quality and quantity of communities available to the soldiers and families assigned to Fort Carson. Interest continues to grow in our project as numerous other DoD locations assess the value of the program and seek information on how it all works.

FIGURE 1: Simplified Privatization Financial Model



Establishing a Standard

For this project, the Fort Carson staff spent a significant amount of time and effort evaluating the current condition of existing units. The result was a well thought out statement of expectations for the privatization effort. It also became the basis of their Request for Proposal (RFP). They did not mandate use of detailed military specifications. They instead established a standard that all bidders had to reach. Examples included the required percentage of ADA units, mandatory renovation tasks (for example, completely renovated bathrooms), and minimum insulation R-values for walls and ceilings, etc. This enabled all bidders to start from a common set of minimums; however, everyone understood that the highly competitive bidding environment would result in a "best value" that was far above the minimums. The RFP provided the Fort Carson priorities and a framework on how they saw the project being structured.

Bidders were asked to respond to this RFP in a coherent proposal responding to the Fort Carson expectations. Putting together a response, whether through Request for Qualification or Request for Proposal is relatively straightforward—balancing the desires for high-quality communities (with modern housing and amenities) against affordability. As we put together our proposal, it became clear that the cash flow of rents received from soldiers slated to live on the installation could be leveraged to achieve Army objectives and more, assuming prudent allocation of resources.

Rental revenue is the starting point from both the government's and the developer's point of view in a privatization project. Out of this rental revenue, operating expenses and debt service payments must be paid. At Fort Carson, our approach was to provide the most responsive O&M support at the most appropriate cost (a task made easier by in-house capability), thus making the largest amount of cash flow available for debt service and, ultimately, available funds. This provided the most funding possible for the project, at inception and over the entire contract period. The amount of the debt was established based upon the concept design for the community site layouts and individual units, cost estimates by consultants and contractors, and typical development costs.

Since the procurement process was a competitive response to a request for proposal, we understood that, unlike typical government procurements where "Best Value" usually means the lowest-cost responsive bidder wins, in this procurement the highest score would probably win. We assessed high score to mean the most project value in terms of total project dollars spent during the initial five-year construction period and the most project value over the entire 50-year contract period. The competition included some of industry's best developers and builders. This caused us to drive fees and other expenses to the lowest possible

level in order to afford the largest possible debt service. This strategy was successful, and on Sept.29, 1999, the Army selected Fort Carson Family Housing L.L.C. as the best value.

Immediately, we assumed operation and maintenance responsibility for the existing 1,823 family housing units. There were numerous challenges to be confronted, with the most significant being overcoming the natural skepticism of the soldiers, families, and Fort Carson staff. We focused on three basic areas:

1. Immediately providing timely and responsive repairs on service calls
2. Initiating construction in the shortest possible time
3. Establishing a mutually beneficial partnering environment with the Fort Carson staff

By doing these three things, we believed we could convince the existing and future housing residents and the Fort Carson staff that privatization was not something to fear but something that would work as intended—improve the family housing and the quality of life within it.

Providing Timely Repairs

J.A. Jones Management Services, an affiliated sister company, oversaw a combined in-house and contract workforce with an extremely tight responsiveness standard. Initial staffing was double the size of the previous government operation. We responded to over 3,800 service calls in the first three months, or about two calls per unit. The word quickly spread that we were addressing items previously deferred by Fort Carson. The number of service calls continued to rise for the next five months and then started decreasing as many items were repaired or replaced during service calls or turnover maintenance. Additionally, we turned over 1,257 units out of the 1,823, or 69 percent, during our first year of operations. This was much faster than the usual three-year turnover ratio that we expected. It enabled us to inspect many of the previously occupied units and quickly raise maintenance standards on the existing units pending renovation efforts.

Initiating Construction on Schedule

The second area was to ensure that new construction, the most visible sign of improvements, occurred on schedule. Our construction program was led by another J.A. Jones company, Metric Residential. The construction organization is led by one of their most experienced residential construction managers, Mike Raider. We all knew that breaking ground on the proposed date was essential in providing solid proof that this project would become reality. To do this we accelerated our design efforts in order to ensure we were ready to start construction in the spring of 2000. Partnership became key as all parties jointly worked through design review procedures. Fort Carson quickly reviewed the documents for impacts on the infrastructure and operation of the utility systems. The Army augmented their internal staff with the technical expertise of the Omaha District of the Corps of Engineers for review of the architectural features for compliance with our proposal. Comments focused on improving the design or integrating the new systems with those existing on Fort Carson. The bottom line was all team members were focused on high-quality housing and getting construction underway in a timely manner.

Groundbreaking was held on March 25, 2000, and today we have six of our seven new construction areas under-

way. Some initial community concern involved our ability to build a workforce without impacting the demand of other contractors in neighboring Colorado Springs. We spoke with local suppliers and subcontractors in order to find team members capable of supporting this mammoth effort. Some trades were in high demand in Colorado Springs and had to be augmented from outside the area. Initial problems were encountered with availability of concrete workers and framers due to the rapid pace of construction in the local community. We called upon relationships with leading subcontractors used on previous projects to fill these key subcontractor roles. Other trade subcontractors were locally available and contracts were signed. To date, the initial fears of community and trade leaders have been allayed and our project has joined the pace of construction in the area with a resounding positive economic impact.

The enthusiasm on post grew with each day as the new housing began to take shape. You could feel the excitement as the first units were turned over to their first new residents. It took barely seven months from the first blade to the turnover of the first key for a newly constructed town home. We have continued the pace and now are 36 units and two months ahead of schedule.

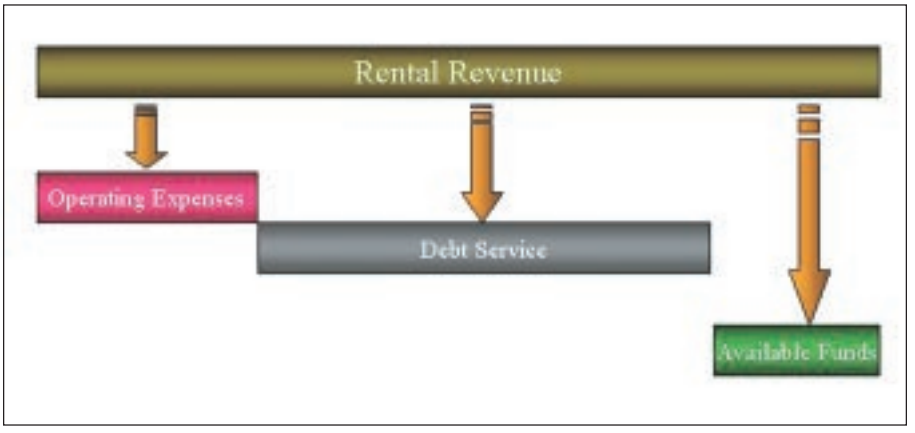
With the turnover of first new units, renovation of existing units began. J.A. Jones Management Services (JAJMS) provides both operating and maintenance (O&M) and renovation leadership for this project in order to combine the experience in O&M with the need for renovation. Contact with the units during O&M enabled the company to clearly anticipate and execute renovation tasks. In November 2000, we conducted a 10-unit test phase so that we could verify our scope of work and get feedback from residents and the Fort Carson Staff. As Col. Peter Topp, the director of public works, so proudly states, "Within five years every family on Fort Carson will live in a new or like-new house!" The test units certainly lived up to expectation. JAJMS stripped down each unit, removed the old kitchen and bathrooms, and conducted a major repair of all house components. Each unit was then refinished or old components were replaced with the same high-quality items being used in the new units. This gives all the housing a lighter, newer feel.

Establishing a Partnership

The last, and probably most important, element of our initial effort deals with working within the traditional military housing culture while simultaneously easing our way through the cultural change associated with privatization. To do this a firm partnership was essential. This partnership is far deeper than a method to eliminate costly legal resolution of differences. It is more like a marriage, due to its length, than any other partnership to date. The privatization effort removes one of the major obstacles to real partnership—the idea that the person performing the work is getting paid by the other party. In our case, Fort Carson Family Housing brought the funding for all construction or renovation and provides day-to-day operation and maintenance of the communities. This life cycle responsibility means if we allow anything less than quality construction or renovation, we have to resolve problems during the O&M portion of the contract. This takes a great deal of pressure off our partners at Fort Carson. They can focus on ensuring that the soldiers and families are taken care of and that the project meets the highest standards. It does not mean that control of the housing area by the installation commander is lessened, only that the fiscal and technical day-to-day operation is no longer his or her fiscal responsibility.

To that end, we make it our main role in the contract to ensure that Fort Carson is privy to every detail of the project and is clearly involved in every strategic, operational, or fiscal decision. Fort Carson continues its role of overseeing the proper housing of soldiers and their families, on-post and off, assisting them and us in solving challenges as quickly as possible, and championing issues that require higher-level decision or action.

FIGURE 2: Initial Fort Carson Strategic Plan



I will concede that there are major cultural issues with privatization that may take years to resolve. In our project we, Fort Carson Family Housing, are DoD contractors and this status limits what we can do to improve the quality of living at Fort Carson, unlike our peers in the civilian community around Fort Carson. We cannot distribute tickets to a local ball game because the Joint Ethics Rules limit what a "contractor" can give government employees. The Navy and the Army both have rectified this situation in future projects by partnering, in a legal sense, with the privatization teammate and thus avoid our "contractor" stigma.

Some of these challenges are to be expected with this being the first Army project, and we have made great strides with our Fort Carson partner. In the year 2001 our project is in great technical and fiscal shape with prospects even brighter.

Long-Range Planning

With the first five-year effort well underway, we are setting the stage for implementation of our long-range plan. In our proposal, we developed a 50-year financial proforma, based upon expected income and expense levels. The last element of the financial model is "available funds." This phrase describes whatever funds are remaining after expenses and debt service. These funds are shared between the developer and a reinvestment account based upon a negotiated split. The reinvestment account becomes the fuel for future development. Depending upon project site circumstances, e.g., cost of capital, fees, basic allowance for housing (BAH) rates, number of units, cost of labor, etc., the amount of available funds will vary. With high expenses or debt service, very little funding remains "available" and the future plan will look bleak. In the case of Fort Carson we minimized expenses and debt service thanks to assistance from very savvy financial supporters and investors. The collective efforts rewarded our project with a robust future development capability as shown below.

The graphic above shows project actions over the 50-year contract period. In summary, it depicts how the existing villages will be demolished and replaced with new units (highlighted by the green stars). The newly constructed units, those under construction today, will be renovated when approximately 25 to 35 years old. One significant advantage of privatization is that long-range funding commitments can be made with a level of certainty not currently available under the government's MILCON system.

We anticipate that we will be able to improve upon this plan as the impacts of the Cohen Initiative, increasing rent allowances for soldiers, is assessed. The beauty that this graphic portrays is that, with prudent management of the finances of this project, this program is fully funded and not subject to budget cuts or other financial influences outside the boundaries of Fort Carson. This plan will be executed! I know of no other program or project that can make such a bold claim. Clearly, the beneficiaries of our project are the soldiers and the families assigned to Fort Carson.

Of course, there are some risks that we have no control over. Base closure, changes to assigned soldier population, inflation, and local economic changes all can impact the project. We are accordingly trying to posture the project to weather these indeterminate risks. In most cases quickly building new commercially attractive communities and replacing the old housing will assist us in any market.

If you are still skeptical after this discussion, I invite you to visit Fort Carson and see for yourself. We will be glad to show you the details and answer your questions. Privatization is certainly working well here after the first year and we expect success to continue in the future. I think David Clappier, president of Fort Carson Family Housing, said it best at the groundbreaking ceremony for the new houses. He said, "This project is about more than houses and streetlights, it's about families. It takes more than a good design or good materials, it takes passion." All associated with our project at Fort Carson share the passion to offer the best possible housing to those serving our nation, and from this end, state everything is now possible. ■

Ronald Hansen, P.E., is the project director for Fort Carson Family Housing, L.L.C.