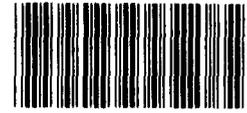


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Comparison of Defense Department's Methods
for Providing Military Family Housing

Statement of
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Before the
Subcommittee on Readiness, Sustainability, and
Support
Committee on Armed Services
United States Senate



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our views on the Department of Defense's (DOD) methods of providing military family housing in the United States through housing allowances and construction programs.

DOD's long-term construction programs include (1) the use of military construction funds to build housing on or near bases, (2) the build-to-lease program, commonly known as the "section 801 program," whereby DOD leases a newly constructed housing project from a private developer for up to 20 years, and (3) the rental guarantee program, commonly known as the "section 802 program," whereby DOD can guarantee a private developer 97-percent occupancy for up to 25 years. Currently, there are no section 802 projects.

On the basis of our work in this area, I will provide our views on the preferred method of funding military family housing, our estimate of the costs of section 801 build-to-lease projects already approved by the Congress, our analysis of DOD's budget requests for funding for section 801 projects, and status of the 802 program.

SUMMARY

In summary, we believe that housing allowances, which assist service members in obtaining housing in the private market, are

the preferred approach to providing military family housing. In the current environment of a shrinking defense budget, potential base closings, and force reductions, the short-term flexibility offered by housing allowances is preferable to the long-term commitments involved in construction. We are also concerned about the adequacy of DOD's justifications for long-term construction projects.

Since 1985, the Congress has approved contracts for 8,823 section 801 build-to-lease housing units. We estimate that the total cost for the 20-year lives of the leases may be more than \$2.3 billion. We believe that these 801 projects may not be always cheaper than military construction because private developers' financing costs will likely be higher than the government's borrowing costs. Finally, we found that between fiscal years 1987 and 1990, the services had requested about \$32 million for section 801 projects that were not built or occupied as planned. Of this amount, the fiscal year 1990 budget includes about \$10 million that is not required.

HOUSING ALLOWANCES ARE THE PREFERRED APPROACH

DOD's long-standing policy is to rely first on local private markets in communities near military installations as sources of family housing. DOD provides housing allowances to service members to assist them in obtaining housing in the private market. These

allowances are designed to cover most, but not all, of the housing costs. There are two types of housing allowances provided in the United States: the Basic Allowance for Quarters is a grade-specific allowance that is the same throughout the country; the Variable Housing Allowance is a supplement intended to equalize cost-of-housing differences among geographical areas.

Approximately two-thirds of the service members in the United States receive housing allowances.

We see four major advantages to the government in using housing allowances. First, housing allowances increase or decrease in response to the growth or decline of military installations and personnel levels. Conversely, the long-term commitments required by construction programs cannot be withdrawn when needs decline.

Second, military members pay some out-of-pocket costs when they receive housing allowances, while under 801 projects and military construction housing programs, the government provides for all the members' basic housing costs. Housing allowances, therefore, tend to be less expensive to the government.

Third, private housing contractors have flexibility in designing local community housing and may be able to pay their workers lower wages than the government is required to pay in military construction programs. According to DOD officials, builders of military-owned or controlled housing must meet military design

specifications and Davis-Bacon federal wage standards, which tend to increase housing costs.

Fourth, housing allowances allow military members a greater selection of housing options to fit their families' needs instead of limiting them to what is offered in military housing.

We are aware that DOD is studying the administration of housing allowances as part of a comprehensive examination of housing compensation issues. At the request of the Senate Committee on Appropriations, GAO is reviewing DOD's effort as part of our review of current and planned DOD housing compensation programs.

CONSTRUCTION NEEDS SHOULD BE CLOSELY EXAMINED

To the extent that the existing private market cannot provide family housing for service members, the services may request military construction funds to build housing on or near military installations. Since fiscal year 1985, more than 16,000 military family housing units have been authorized for construction in the United States.

As an alternative to the services' building their own housing, the Military Construction Authorization Act of 1984 authorized DOD to consider build-to-lease (section 801) and rental-guarantee (section 802) projects. These are pilot programs that will expire unless

the Congress takes action to renew them. The 801 program will expire in 1991, and the 802 will expire in 1990.

Although construction programs involve inflexible long-term commitments, they do have certain advantages. For example, in situations in which local housing markets cannot meet the services' housing demand, such as in remote areas, construction programs may be the only way to provide housing. However, we believe that, even in these situations, DOD should first investigate the use of alternatives that involve shorter term commitments, such as mobile homes as was done at Fort Ord, California.

When housing provided through construction is appropriate, it ensures that military members' housing will meet DOD standards regarding the amount and quality of living space allowed by rank. Because the military controls this type of housing, it can make certain that DOD's standards are met. Meeting the standards is less certain under the allowance program, which lets members select their own housing in the private market.

Another advantage to construction programs is that they enhance the availability of military members because such housing is located at or near installations. This availability is in keeping with the military's policy of placing priority-status personnel in on-base housing to minimize commuting time in emergencies.

Despite these advantages, the services need to properly justify their needs for housing construction projects before making the expensive long-term commitment they require. We recently found that the Army had not adequately justified its need for a section 801 project at Fort Campbell, Kentucky. The Army based its recent request for a 300-unit 801 project on inaccurate data and a faulty model.

In determining its need, the Army inadequately estimated its housing requirements and the number of available private rental units. When we corrected these inaccuracies, the Army could not justify additional family housing construction based upon its own model. Furthermore, the Army might still have reached an erroneous conclusion regarding its need for new construction even if it had correctly calculated its housing requirements and the number of available rental units. This is because the model it uses to determine the need for military-owned or controlled housing is methodologically flawed. The Army's model does not include any mechanism to equate the quantity of housing demanded with the quantity of housing supplied. As a result, the Army's housing model may indicate a need for additional housing when there is none.

As a result of our findings, the Chairman of the Subcommittee on Military Construction, Senate Committee on Appropriations, deferred action on the Fort Campbell project until the Army corrects the

errors in its housing data. The Subcommittee also decided not to approve any new Army section 801 projects until the deficiencies we found in the Army's model are corrected. We are reviewing the Army's efforts to correct the deficiencies in its model.

COSTS OF THE SECTION 801 BUILD-TO-LEASE PROGRAM

In section 801 projects, DOD leases a newly constructed housing project for up to 20 years from a private developer. To be approved, 801 projects must be shown by economic analysis to cost at least 5 percent less, in present value terms, than comparable military construction housing over a 20-year period. Since the program's inception in fiscal year 1984, the Congress has authorized 19,500 section 801 family housing units. During this period, the services entered into 25 section 801 contracts for the construction and leasing of 8,823 of these authorized units. Fourteen of these 801 projects, totaling 4,513 units, are completed and occupied under lease.

Estimated Cost of the Section 801 Projects Under Contract

The shelter rent paid to the owners of these 8,823 authorized housing units will exceed \$1.7 billion for the 20-year lives of the leases. Shelter rent covers the cost of construction, site preparation, taxes, and insurance. Shelter rent does not include maintenance or utility costs.

DOD will be liable for most of the 25 section 801 projects' costs in future years, as none of the 20-year leases have been in effect for more than 4 years, and 11 had not started as of February 1990. The shelter rent, when all 25 project leases are in effect, will amount to about \$86 million per year.

In addition to shelter rent, DOD will also pay the maintenance and utility costs on these 25 projects. Information on which to base estimates of these costs is not available on many of the projects. However, on projects for which the information is available, maintenance and utility costs average 27 percent of total project costs. Using this percentage as a base, we estimate that total 801 costs (including shelter rent, maintenance, and utilities) may be about \$2.3 billion for the 20-year lives of the leases. In present value terms, using a discount rate of 8.7 percent (the current yield on long-term Treasury securities), the cost would be about \$1.1 billion. These estimates do not include any increases to account for escalation in the costs of maintenance, utilities, taxes, and insurance; nor do they include any overhead costs associated with the planning and administration of the projects.

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Section 801 Project Costs May Not Always Be Cheaper Than Military Construction Projects

For eight of the 25 section 801 project locations under contract, military construction projects were approved within a short period of time before or after the section 801 projects were approved. For example, in fiscal year 1989, 108 military construction units were authorized, and 300 section 801 units were placed under contract at Fort Bliss, Texas. In the same year, the Navy authorized 150 military construction units and contracted for 202 section 801 units in New York City. Building both types of projects at the same time and in the same location raises questions about the decision process for determining whether to use military construction or section 801 projects.

GAO, in past reports, has expressed concern over the economic analysis used to show that 801 projects are cheaper than military construction. Our principal concern is that private developers' borrowing costs will likely be higher than the government's borrowing costs. As a result, section 801 projects should be more expensive than comparable military construction unless their costs can be reduced.

Budgets Overstate Funding Needed For Section 801 Projects

The services use operations and maintenance funds to pay the costs of their section 801 projects. Each year, the services include a breakout of their 801 projects in their budget submissions for operations and maintenance funding. The breakouts include new projects they plan to implement during the year as well as the costs of previously implemented projects.

In examining past budget requests, we found that the services had included amounts for some section 801 projects that had been canceled or delayed beyond the budget year. These delayed or canceled projects amounted to about \$9.9 million in fiscal year 1990. In reviewing prior year budgets, we found that, between fiscal years 1987 and 1989, the services had requested about \$22 million for 17 section 801 projects that were not built or occupied during the budget year involved. For example, in fiscal year 1987, the Army submitted a budget request for \$1.5 million to cover rent and other costs for 300 units of a proposed 801 housing project in Hawaii that was never built. This project, which has also appeared in the Army's budget requests for fiscal years 1988, 1989, and 1990, has still not been built. The total amount of funds requested for this one project for all 4 fiscal years amounted to \$3.8 million.

According to a DOD official, the information shown in the annual budget submissions for section 801 projects are nonbinding estimates that are usually out of date by the time the budget is submitted. This official said that the House and Senate Committees on Armed Services and on Appropriations, which must be notified of both the request for proposal and the award winner before an 801 project can be undertaken, are kept up to date by a periodic listing showing all 801 projects that are under contract, in the request-for-proposal stage, or under consideration. This listing is usually not in agreement with the services' budget submissions and does not include cost information.

Under this approach, differences exist between the number of 801 projects appearing in the services' budgets submissions and the actual number of projects on which expenditures are being made. The end result is that the Congress does not know with certainty how much is being spent on 801 projects in any one year or the extent to which funds earmarked for 801 projects in budget submissions are being spent for other family housing purposes.

Appendix I shows detailed information on the fiscal year 1990 budget regarding funding requests for rental payments and other related occupancy costs for projects that will not be built or completed during the year. Therefore, the funding requested for these projects is not required.

STATUS OF THE SECTION 802 RENTAL GUARANTEE PROGRAM

Section 802 rental-guarantee projects are housing projects for which DOD guarantees a 97-percent occupancy for up to 25 years when the developer agrees to give priority consideration to renting to service members. To be approved, an 802 project must be shown by economic analysis to cost less than a similar military construction project. Also, the project must be affordable to the service members who will occupy it. DOD has not defined what "affordable" means because no section 802 projects have been built. However, according to DOD officials, "affordable" housing would probably be defined as housing whose costs do not exceed a reasonable amount of out-of-pocket costs beyond the housing allowance.

According to DOD officials, there were several reasons that 802 projects have not been attractive to contractors. For example, government-guaranteed rents were based on housing allowances, which were below market rates. Another reason cited was that legislation required DOD to cancel the contract if it determined that maintenance was not being performed properly. This meant that the contractor could lose his guarantee over a maintenance dispute. The legislation has been recently revised to eliminate this possibility and to allow utilities to be paid from appropriated funds. DOD hopes that these changes in the legislation will

generate more contractor interest in the 802 program. DOD is currently considering an 802 project.

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This concludes my prepared statement, Mr. Chairman. I will be happy to respond to any questions you or the other Members of the Subcommittee may have.

Table I.1: Funds for 801 Projects Not Required in Fiscal Year 1990
Dollars in Thousands

<u>Location</u>	<u>Units shown as occupied in 1990</u>	<u>Appro- priation request</u>	<u>Current status</u>
Army			
Ft. Benning	150	\$583	Project deleted.
Ft. Bragg	200	756	Project being considered.
Ft. Devens	100	570	Project being considered.
Ft. Dix	100	555	Project deleted.
Ft. Wainwright ^a	350	3,503	Project deleted.
Oahu Consolidated	200	<u>1,133</u>	Project being considered.
Total Army		\$7,100	
Navy			
29 Palms	100	<u>1,000</u>	Contract terminated.
Total Navy		\$1,000	
Air Force			
Whiteman	100	1,330	Project deleted.
Hurlburt	50	167	Contract being solicited.
March	100	<u>276</u>	Project deleted.
Total Air Force		<u>\$1,773</u>	
Total all services		<u>\$9,873</u>	

^aThe amount of the appropriated request is a net amount of two projects at Ft. Wainwright.