



Report to the Subcommittee on  
Readiness, Committee on Armed  
Services, House of Representatives

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March 2014

# MILITARY HOUSING

## Information on the Privatization of Unaccompanied Personnel Housing

# GAO Highlights

Highlights of [GAO-14-313](#), a report to the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

Partly in response to concerns that inadequate housing might be contributing to servicemembers' decisions to leave the military, Congress enacted the MHPI in 1996. The initiative gave the Department of Defense (DOD) legal authorities to replace or renovate inadequate housing for unaccompanied military personnel (those without dependents) and military families using private-sector financing, ownership, operation, and maintenance. Certain military personnel receive the BAH, which can be used to pay rent to live in privatized housing. Since 1996, DOD has built and modernized on-installation unaccompanied personnel housing using military construction funds. According to a February 2013 DOD report to Congress, from fiscal years 1996 through 2012, DOD spent over \$20 billion of military construction funds to build and modernize on-installation housing for unaccompanied military personnel.

GAO was asked to review DOD's efforts to privatize unaccompanied housing. GAO discusses the (1) analyses the military services conducted to make decisions about privatizing housing for unaccompanied personnel and (2) status of housing projects the military services have privatized for unaccompanied personnel. GAO obtained and reviewed fiscal years 1996-2013 housing plans and analyses the services conducted, reviewed information on privatization projects, and interviewed DOD and service officials.

GAO is not making recommendations in this report.

View [GAO-14-313](#). For more information, contact Chris Currie at (404) 679-1875 or [currie@gao.gov](mailto:currie@gao.gov).

March 2014

## MILITARY HOUSING

### Information on the Privatization of Unaccompanied Personnel Housing

## What GAO Found

Since Congress enacted the Military Housing Privatization Initiative (MHPI) in 1996, the military services conducted several analyses and considered other factors to determine whether to privatize housing for unaccompanied personnel. These analyses were conducted between 1997 and 2011. The Army's and the Navy's analyses compared different scenarios—such as whether to rely on privatization or use traditional military construction funding to improve housing quality—and considered information from multiple installations in these analyses. In contrast, the Air Force and Marine Corps analyzed the feasibility of privatizing unaccompanied housing at a few selected installations. For example, the Air Force based its initial analysis on information for two locations, while the Marine Corps based its 2008 analysis on information specific to one installation. The Navy and Army concluded that privatization could be used under a narrow set of circumstances at specific installations, such as where unaccompanied servicemembers were already receiving the basic allowance for housing (BAH). The Air Force and Marine Corps concluded that privatization was not suitable for meeting any of their housing needs. For example, an April 2000 Air Force memorandum indicated that privatization could have a negative effect on building unit cohesion. Other factors also played a role in the four services' decisions about whether to privatize housing, including (1) the limited availability of the BAH for junior unaccompanied personnel, which may result in not having a dedicated stream of income to pay rent for privatized housing; (2) the frequency or duration of unit deployments, which could affect the occupancy rates of unaccompanied housing; and (3) uncertainty about the future size of the military, and whether there would be sufficient demand for privatized housing.

Between 1996 and 2013, the Army and Navy implemented seven privatized unaccompanied personnel housing projects. The Air Force and Marine Corps have not used the privatization authorities, and are instead using military construction funds to improve the quality of their unaccompanied personnel housing. Air Force housing officials told us that Air Force unaccompanied personnel housing inventory generally meets current housing needs. According to Marine Corps officials, the Marine Corps intends to eliminate existing housing deficiencies by demolishing inadequate unaccompanied personnel housing and using military construction funds to replace or renovate housing by the end of fiscal year 2014. According to Office of the Secretary of Defense and military service housing officials, none of the services have plans to pursue any future privatized housing projects for unaccompanied personnel.

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## **Abbreviations**

|      |   |
|------|---|
| BAH  | basic allowance for housing               |
| DOD  | Department of Defense                     |
| MHPI | Military Housing Privatization Initiative |
| OMB  | Office of Management and Budget           |

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March 18, 2014

The Honorable Rob Wittman  
Chairman  
The Honorable Madeleine Z. Bordallo  
Ranking Member  
Subcommittee on Readiness  
Committee on Armed Services  
House of Representatives

In the mid-1990s, the Department of Defense (DOD) became concerned that inadequate housing was contributing to servicemembers' decisions to leave the military. As part of its efforts to improve the quality of military housing, DOD requested certain authorities from Congress that would allow the department to use the private sector's investment capital and housing construction and operations expertise so that the department could replace or renovate inadequate housing. According to DOD officials, privatization could be a faster method to improve the condition of military-owned housing compared with constructing government-owned housing using traditional military construction funding. In 1996, Congress enacted the Military Housing Privatization Initiative (MHPI), which gave the military services the authorities to privatize housing for unaccompanied military personnel (those without dependents) and military families in the United States.<sup>1</sup> These authorities allow for private-sector financing, ownership, operation, and maintenance of military housing. Under the initiative, DOD can invest in the privatization efforts and provide direct loans, loan guarantees, and other incentives to encourage private-sector developers to construct and operate housing either on or off military installations.

Certain military personnel receive a basic allowance for housing (BAH), which, when the servicemembers choose to live in privatized housing, is typically used to pay rent to privatized housing project companies, which are operated and managed by developers. The BAH is a cash allowance paid from DOD's military personnel appropriation account to cover the typical monthly costs of rent, utilities, and renter's insurance. Personnel

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2841 (1996) (codified as amended at 10 U.S.C. §§ 2871, et seq.).

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eligible for the housing allowance typically are not required to live in any particular location; they can elect to live at their military service's privatized housing project (if one exists on or off the installation) or to live elsewhere.

You requested that we review DOD's efforts to privatize housing for unaccompanied personnel. Specifically, we discuss the (1) analyses that the military services conducted to make decisions about privatizing housing for unaccompanied personnel and (2) status of housing projects that the military services have privatized for unaccompanied personnel.

To address these objectives, we focused on privatized unaccompanied housing projects that were constructed, renovated, and operated entirely or partially with private capital between fiscal years 1996 (when Congress enacted the MHPI) and 2013. We reviewed the statutory authority for the MHPI and reviewed DOD- and service-level guidance implementing the initiative. Specifically, we reviewed the Office of the Secretary of Defense's program evaluation plans and, for the military services with privatized housing projects, information about their unaccompanied housing master plans. We also reviewed but did not evaluate analyses that the Army, Navy, Air Force, and Marine Corps documented to support their respective housing privatization decisions. We did not evaluate these analyses because DOD and service officials told us that they had no plans to pursue any additional unaccompanied privatized housing projects. Further, in cases where they did privatize, all projects are complete except for two. To corroborate our understanding of these analyses, we interviewed officials in the Facilities Investment and Management Directorate and Facility Energy and Privatization Directorate of the Office of the Deputy Under Secretary of Defense (Installations and Environment) responsible for overseeing housing privatization, as well as officials in associated offices in the Army, Navy, Air Force, and Marine Corps.

For each of the seven existing privatized housing projects for unaccompanied personnel, we reviewed information such as the location, target population, number of beds, occupancy rates, and financial information such as projected revenues, expenses, and net operating income. To assess the reliability of these data, we discussed with the military services and officials from the Office of the Secretary of Defense the process for collecting the data, and the steps they took to ensure that the data were accurate. We determined that the data were sufficiently reliable for the purposes of this audit. We conducted site visits to four of the seven Army and Navy unaccompanied privatized housing projects.

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Specifically, we visited projects in high- and low-population density areas. During these visits, we interviewed installation housing officials to determine the status of privatized housing projects for unaccompanied personnel and to identify any issues related to specific projects. In addition, we interviewed commanding officers as well as junior and senior enlisted unaccompanied personnel to obtain their perspectives on privatized unaccompanied housing. At each location we visited, we toured both privatized and government-owned housing for unaccompanied personnel. We also interviewed the private-sector developers responsible for the privatized projects we visited to get their views on the financial status of existing and any future projects. The information gathered from our site visits is not generalizable to all privatized unaccompanied personnel housing projects.

We conducted this work from April 2013 to March 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Basic Allowance for Housing (BAH)

Unaccompanied personnel who are not assigned to government-owned housing, or are above certain pay grades, are authorized to receive the BAH, and the amount of the allowance is based on factors that include a servicemember's pay grade, dependency status, and geographic location. Additionally, each service determines pay grades at which personnel are no longer assigned to government-owned housing. Junior unaccompanied personnel are generally required to live in government-owned unaccompanied housing on their installation, commonly referred to as barracks (Army and Navy), dormitories (Air Force), or bachelor enlisted quarters (Marine Corps), and may be eligible for the housing allowance only if on-installation, government-owned housing is not available.

In table 1, we list the pay-grade thresholds each military service has established for junior unaccompanied personnel permanently assigned to installations in the United States and required to live in government-owned housing.

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**Table 1: Junior Unaccompanied Personnel Required to Live in Government-Owned Housing in the United States, as of February 2013**

| Service      | Pay grade   |
|--------------|---|
| Army         | E-1 (Private) to E-5 (Sergeant)   |
| Navy         | E-1 (Seaman Recruit) to E-3 (Seaman), and E-4 (Petty Officer Third Class) with fewer than 4 years of service. However, depending on availability of unaccompanied housing on an installation, E-4s with more than 4 years of service may also be required to live in unaccompanied housing. |
| Air Force    | E-1 (Airman Basic) to E-3 (Airman First Class), and E-4 (Senior Airman) with fewer than 3 years of service  |
| Marine Corps | E-1 (Private) to E-5 (Sergeant)   |

Source: Department of Defense (DOD).

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## DOD Efforts to Improve Quality of Housing for Unaccompanied Personnel

In 1995, DOD adopted a new construction standard that called for more space and increased privacy in new government-owned housing for servicemembers permanently assigned to an installation. The new standard, which was modified in 2007, provided each junior unaccompanied servicemember with a private sleeping room and a kitchenette and bath shared by one other member. DOD justified the adoption of the new standard primarily as an investment in quality of life aimed at improving military readiness and retention. All the military services except the Marine Corps accepted the new standard, and developed various initiatives to implement it, as discussed below. The Marine Corps believed that the new standard did not allow for the unit cohesion and team building needed to reinforce Marine Corps values and develop a stronger bond among junior Marines. Therefore, the Marine Corps obtained a permanent waiver from the Secretary of the Navy to use a different design standard—one sleeping room and bath shared by two junior Marines. According to a February 2013 DOD report to Congress on government-owned housing for unaccompanied personnel, from fiscal years 1996 through 2012, DOD spent over \$20 billion of military construction funds to build and modernize on-installation housing for unaccompanied personnel.<sup>2</sup>

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<sup>2</sup>Department of Defense, Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, *Report to Congress on Government-Owned Unaccompanied Housing* (Washington, D.C.: February 2013).



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- Army: Between fiscal years 1996 and 2012, the Army spent over \$12 billion of military construction funds on its barracks modernization program to modernize housing for all Army unaccompanied personnel permanently assigned to an installation. The renovated facilities meet the current DOD standard configuration, and each module includes two bedrooms, one bathroom, a cooking area, and appliances. The housing complex also includes laundry facilities.
  - Navy: The Navy spent about \$2.5 billion of military construction funds between fiscal years 1996 and 2012 on improving the condition of its housing for unaccompanied personnel. A key component of the Navy's modernization program for unaccompanied housing is the Homeport Ashore program, which was created to improve the quality of life among ship-based junior sailors by moving them off ships and into unaccompanied housing on shore while their ships were docked in their homeport. The Navy expects to complete this initiative by fiscal year 2016 utilizing both privatization and military construction authorities. However, the BAH statute (37 U.S.C. § 403(f)) prohibits E-1 to E-3's without dependents on sea duty from receiving the BAH, and privatized housing projects are not generally feasible unless military members are receiving a housing allowance. Congress, in the Bob Stump National Defense Authorization Act for Fiscal Year 2003, amended the housing privatization authorities by adding a new section (10 U.S.C. § 2881a) that authorized the Navy to carry out up to three pilot unaccompanied housing privatization projects in which junior enlisted members without dependents could be authorized higher rates of partial BAH to pay their rent.<sup>3</sup> Per 37 U.S.C § 403(n), partial BAH is a payment at a rate determined by the Secretary of Defense based on a specified historical rate (typically around \$8 per month, as of 2011) paid to members not authorized to receive BAH, such as those assigned to live aboard ships or in government quarters. The 10 U.S.C. §2881a authority expired on September 30, 2009, and the Navy executed two of the three authorized projects prior to the expiration of the authority.
  - Air Force: The Air Force spent almost \$3 billion of military construction funds from fiscal years 1996 to 2012 on modernizing its dormitories for unaccompanied personnel. Air Force housing officials told us that the service has adequate housing for all its airmen. The Air Force also implemented a policy in 1996 whereby each unaccompanied airman

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<sup>3</sup>Section 2881a of Title 10 of the United States Code authorizes the payment of higher rates of partial BAH for members occupying housing acquired under this pilot authority, subject to Secretary of Defense approval.

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permanently assigned to an installation is assigned to a private bedroom. In 2006, the Air Force started requiring that its dorms be built or renovated according to a four-bedroom module design, called Dorms-4-Airmen, specifically for unaccompanied personnel in the pay grades from E-1 to E-3 and E-4 with less than 3 years of service. The design was based on Air Force criteria, detailed analysis of square-footage requirements and constraints, and prototype development. It was designed to achieve the goal of providing privacy while boosting social interaction.

- Marine Corps: The Commandant of the Marine Corps approved the Bachelor Enlisted Quarters campaign plan in 2006. The goals of the plan were to eliminate existing space deficiencies, demolish inadequate housing, and achieve the new standard of one sleeping room and bath shared by two junior Marines by fiscal year 2014. From fiscal years 1996 to 2012, the Marine Corps spent about \$3.5 billion of military construction funds to replace and renovate its housing for unaccompanied personnel.

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## Budget Treatment of Privatization Projects

In June 1997, DOD and the Office of Management and Budget (OMB) agreed to a set of guidelines<sup>4</sup> that would be used as a frame of reference for scoring privatization projects.<sup>5</sup> The implications of scoring depend on which MHPI authority will be used. For example, the guidelines state that if a project provides an occupancy guarantee, then funds for the project must be available and obligated “up front” at the time the government makes the commitment of resources. In other words, if a project provides an occupancy guarantee, then the net present value of the guarantee—the cumulative value of the rents to be paid for the housing over the entire contract term—must be obligated at the beginning of the project. According to Army and Navy officials, none of the privatized projects for housing unaccompanied personnel discussed in this report include an occupancy guarantee.

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<sup>4</sup>These guidelines were updated in 2005. Office of Management and Budget, *Guidance on Use of Limited Liability Partnerships in Military Housing*, Memorandum (Aug. 2, 2005).

<sup>5</sup>Each privatization project that DOD enters into must be scored for budget purposes. Scoring seeks to determine the cost that should be recognized and recorded as a DOD obligation at the time the project agreements are finalized. OMB Circular A-11 provides guidelines on how future obligations should be treated for budget purposes. The guidelines are designed to ensure that the budget records the full amount of the government's commitments when a commitment is made.

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## Each of the Services Conducted Analyses and Considered Other Factors in Determining Whether to Privatize Housing for Unaccompanied Personnel

From 1997 to 2011, the services conducted several analyses of the costs and suitability of privatization as a financing method for their housing needs for unaccompanied personnel. Using different methods, such as business-case and life-cycle cost analyses, and using different assumptions about how repairs and upkeep for housing would be funded, the services reached different conclusions about the potential for cost savings from using either privatization or the traditional government-funded military construction approach. The Army concluded that privatization is feasible but more costly in most cases, while the Navy found that privatization is feasible in certain locations. The Air Force and Marine Corps concluded that privatization was not desirable for housing their unaccompanied personnel.

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## The Army and Navy Compared Different Scenarios from Installations Service-Wide

The Army conducted three sets of analyses to determine whether to privatize housing for unaccompanied personnel. These analyses used different scenarios and data gathered from multiple locations. The Army documented the analytical processes used, and communicated its conclusions to service leadership. In 2004, the Army formed a task force to assess the feasibility and desirability of privatization of unaccompanied personnel housing. Task-force members conducted the study over 6 months, visiting six sites, including Fort Detrick, Maryland; Fort Leonard Wood, Missouri; Fort Lewis, Washington; Fort Stewart, Georgia; Fort Hood, Texas; and the Presidio of Monterey, California. There appeared to be no consistent criteria applied for site selection in the task-force study in that the reasons for selection differed in each case. For example, Fort Lewis was selected in part because of command interest, and Fort Leonard Wood was selected because it is a training installation that represents the consolidation of training missions at a larger site. Study authors also considered 18 scenarios, 5 of which were Army-wide. These scenarios involved different assumptions about the number and pay grades of unaccompanied personnel housed on and off installations, as well as the amount of money spent by the Army to construct and sustain new facilities. The study concluded that privatization of housing for unaccompanied personnel was financially feasible at selected installations, such as Fort Stewart and Fort Hood, in part because a majority of senior enlisted personnel there were already receiving the BAH and living off the installation; however, all members of the leadership task force responsible for the study could not reach consensus on the study's findings. For example, the study authors suggested that soldiers should not be mandatorily assigned to privatized housing. OMB scoring rules require that mandatory assignment be treated as an occupancy guarantee, which would have the effect of committing the government to

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a large long-term expenditure. However, other members of the task force questioned whether mandatory assignment might be necessary to support the building of cohesive units, which is fostered by working and living together as a team.

The Army completed an additional analysis of privatization in response to a 2009 congressional inquiry. The Army prepared a report that focused on the privatization of housing for junior unaccompanied personnel. The analysis included a review of privatization's effect on costs, soldiers' quality of life, and the Army's traditions and culture. The study was conducted over a 3-month period and included modeling scenarios at Fort Polk, Louisiana; Fort Irwin, California; and Fort Meade, Maryland, and one U.S.-wide extrapolation. The three locations were chosen because their barracks needed renovations and local commanders and private-sector developers supported privatization. The analysis concluded that privatization was feasible, but the cost to privatize barracks would be higher than what the Army was currently spending on barracks construction and sustainment.<sup>6</sup>

The Army also conducted a series of due diligence studies at Fort Benning, Georgia; Fort Irwin, California; Fort Knox, Kentucky; Fort Leonard Wood, Missouri; Fort Meade, Maryland; and Fort Polk, Louisiana, in April and May 2010.<sup>7</sup> The purpose of these studies was, among other things, to assist the Army in determining the feasibility of implementing barracks privatization pilot projects. In July and August 2010, the results of the studies were condensed into business-case analyses to show the potential costs or savings the Army would experience at each of the six sites if barracks privatization projects were executed. According to the Army report, the bottom-line finding of the analyses was that such projects would result in a significant net cost to the Army if executed, because the Army was not funding all barracks requirements at 100 percent. The report further stated that the Army's expected BAH payments would be greater than the actual barracks funding that was currently taking place. Fort Meade was the only

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<sup>6</sup>"Sustainment" is the term used to refer to actions that are recurring and scheduled over the life of a facility so that it maintains function.

<sup>7</sup>Department of the Army, *Unaccompanied Personnel Housing (UPH) Barracks Privatization Initiative (BPI): Due Diligences & Summary Business Case Analyses at Forts Benning, Irwin, Knox, Leonard Wood, Meade & Polk* (August 2010).

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exception of the six sites because less than 50 percent of the junior servicemembers were Army, but the Army was funding all barracks for all the services. The report concluded that the Army's expected BAH payments at Fort Meade would be less than the current Army Military Construction, Operation and Maintenance, and Sustainment, Restoration and Modernization funding.

Like the Army, the Navy developed analyses that considered multiple scenarios. In 2009, the Navy conducted a business-case analysis using three scenarios and data collected from site visits at San Diego, California; and Norfolk, Virginia; which were the only Navy locations with privatized projects for unaccompanied housing. The service used both quantitative and qualitative data, drawing on the pro forma financial statements<sup>8</sup> and requests for proposals from the San Diego and Norfolk privatization projects, military construction budget, and BAH data from multiple years, as well as interviews with personnel across the Navy. The study compared three alternative scenarios with a baseline scenario. One of the scenarios involved privatization, another featured construction with military construction funds, and the third assumed the community provided the majority of the housing needs. Under the baseline scenario, the assumptions were that the Navy would own and operate all housing for unaccompanied personnel, and would underfund building maintenance and support. Briefings to leadership documented the analytical process and summarized the results of the study. The Navy analysis concluded that privatization of housing for unaccompanied personnel would be more cost-effective for housing junior sailors based on their receiving a higher partial rate of BAH (versus the full BAH rate), rather than building new quarters using traditional military construction funding.

In 2011, 2 years after the initial analysis, the Navy reviewed the issue of the privatization of housing for unaccompanied personnel again and reached similar conclusions. The Navy study found that privatization requires lower operating costs than housing funded through annual appropriations requested through the military construction budgeting process and sustained at the required levels of operation and maintenance. However, the study noted that privatization of housing for

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<sup>8</sup>Pro formas are hypothetical financial statements or balance sheets based on financial assumptions or projections about a business's expected performance.

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unaccompanied personnel is only viable at select locations, such as where there is a stable population and a need to provide sailors with housing ashore when their ship is in its homeport. In such areas, enough population might exist to sustain the necessary level of occupancy in unaccompanied housing while sailors are at sea.

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### The Air Force and Marine Corps Analyzed the Feasibility of Privatizing Housing for Unaccompanied Personnel at Selected Installations

The Air Force and Marine Corps analyses of whether to privatize unaccompanied personnel housing reviewed privatization at a few selected locations. The Air Force developed three analyses reviewing privatization over a 5-year period beginning in 1997. Air Force officials documented the analytical processes used through reports and memorandums and communicated the conclusions to service leadership in briefings. The first effort, the Dormitory Privatization Feasibility Study, lasted for 5 months and included site visits to two bases where data were collected for a feasibility analysis. The Air Force selected the two locations—Dover Air Force Base, Delaware; and Tinker Air Force Base, Oklahoma—from eight candidate bases nominated by the major commands, in part because both bases had housing shortages. Tinker had the largest housing shortage of the eight candidate bases with 59 percent of the total demand for unaccompanied housing unmet, compared with 12 percent at Dover, and both had rooms that would require future renovation or replacement. Based on post-site-visit financial analyses, the study authors found that privatization would be less expensive than traditional military construction at Tinker but not at Dover. A 51-year life-cycle cost comparison conducted in 1997, provided to us by Air Force officials, showed the cost of privatization at Tinker to be \$163.7 million, compared with the military construction cost of \$205.7 million. For Dover, the analysis showed a cost of \$110.5 million for a traditional military construction approach compared with \$132.5 million for privatization. The study authors concluded that privatization was more suitable for installations with a slow local economy, high installation and local support for privatization, degraded existing facilities, and a large unaccompanied housing shortage—conditions that existed at Tinker. Further, the study concluded that since privatization of housing for unaccompanied personnel was suitable only for certain locations, it could be used only to augment traditional military construction funding, not to replace it.

Later, in 1997, the Air Force organized an exercise to discuss whether to use privatization as a tool to construct dormitories. The team conducting the exercise was composed of more than a dozen Air Force headquarters housing and installation officials. The team discussed the results of the

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Dormitory Privatization Feasibility Study, as well as other factors such as the effects of utilities, leasing, and mandatory assignment of personnel to privatized housing on OMB scoring, and leadership control over housing residents' activities. The team recommended that the Air Force not pursue privatization to construct dormitories, primarily because the team found that privatization was not a cost effective alternative to using military construction funding for building dormitories. In 2002, 5 years later, another team composed of new members from all levels of the Air Force met to establish a baseline for an Air Force dormitory privatization program. This team also identified a number of issues, such as unit integrity, the scale of necessary government commitment of funds, enforcing discipline among tenants, and conducting inspections in a building that was not solely government-owned, that would make privatization projects unfeasible unless they were resolved. In an April 2000 memorandum, the Air Force Chief of Staff argued against privatizing unaccompanied personnel housing. The official indicated that residing in on-base dormitories ensures that junior enlisted personnel acclimate to the Air Force, build esprit de corps with members of their unit, and have access to base services such as medical, fitness, recreation, commissary, and exchange facilities. Ultimately, according to Air Force officials, the Air Force decided that military construction would meet their needs for housing and decided against using privatization.

In 2008, the Marine Corps completed a feasibility analysis to decide whether to privatize housing for unaccompanied personnel at a single location—Camp Pendleton, California—as it lacked sufficient high-quality housing for unaccompanied personnel. The service documented this analysis in a briefing submitted to Marine Corps leadership and a memorandum prepared the following year. The feasibility analysis included an examination of the cash contributions required from the Navy, a participation test for the 336-bed project, and a life-cycle cost analysis. The feasibility analysis concluded that privatization of housing for unaccompanied personnel would be 55 percent more expensive than building new quarters using military construction funds. A 2009 Marine Corps summary on the subject of bachelor housing privatization noted that Marines are assigned to barracks with others from their unit, which promotes unit integrity and unit cohesion. However, the direct or mandatory assignment of servicemembers to privatized housing could be viewed as providing an occupancy guarantee to the developer, which under the OMB guidelines would require that the full value of the guarantee must be available and obligated “up front” at the time the government makes the commitment of resources. In interviews, Marine Corps officials stated that privatized housing is incompatible with Marine

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Corps culture because Marines do not deploy as individuals; they deploy as units. Moreover, E-1 to E-3 Marines, like E-1 to E-3 sailors on sea duty, are assigned to shared rooms. This configuration is an important element of the Marine Corps' philosophy and goal of fostering team building, companionship, camaraderie, and unit cohesion, according to the 2010 report by the LMI company on unaccompanied personnel housing for junior enlisted members, which was commissioned by DOD to provide a comprehensive view of housing programs for unaccompanied personnel across the services.<sup>9</sup> The Marine Corps conducted no additional analyses of privatization for unaccompanied personnel. Starting in 2008, the Marine Corps undertook a \$2.8 billion military construction initiative to build new barracks over a 6-year period from fiscal year 2008 through fiscal year 2014. According to Marine Corps officials, the Marine Corps decided that military construction would meet its needs for housing and decided against using privatization.

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### Other Factors Influenced the Services' Decisions Regarding Privatizing Housing for Unaccompanied Personnel

In addition to the three issues of OMB scoring, the life-cycle cost of government construction and operation of housing versus that of privatized construction and operation of housing, and unit integrity, the services' analyses and our interviews with service officials identified three other factors that influenced the services' decisions about whether to privatize housing for unaccompanied personnel:

- BAH: Most junior unaccompanied personnel without dependents are not eligible to receive a housing allowance (and, in the case of junior shipboard sailors, are not entitled by law to receive a BAH). Without the assurance of a steady stream of income from the BAH, which junior unaccompanied personnel could use to pay rent for privatized housing, private-sector developers would likely be unwilling to participate in privatized housing projects, the Army's 2005 Unaccompanied Personnel Housing Privatization Task Force Study concluded. In interviews and in some analyses, such as the Army's task-force study report, the services expressed reluctance to assume any additional costs, particularly a cost relating to personnel since such obligations to pay costs in the future must typically be funded at the time the obligation is made. In the Army's privatization task-force report, the Army's resource-management officials noted that even just

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<sup>9</sup>LMI, *Unaccompanied Personnel Housing for Junior Enlisted Members*, HCS80T1 (May 2010).



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a few pilot privatization projects could lock the Army into a 50-year BAH bill that must be funded, because the leases for privatization projects generally run for 50 years.

- The frequency or duration of unit deployments: With privatized family housing, the frequency of deployments of the servicemember generally does not affect the rent received because the servicemember's family remains behind and maintains the leased property. However, unaccompanied personnel living in privatized housing do not receive the BAH when they are deployed, if they do not have a lease. Therefore, frequent or prolonged deployments can reduce the occupancy rates of privatized housing. Occupancy rates are a key indicator of a housing project's financial viability.
- The uncertainty about the future size of the force: According to a 2012 DOD budget-priorities document, the department plans to reduce the size of the active Army from a post-9/11 peak of about 570,000 in fiscal year 2010 to 490,000 by fiscal year 2017, and the active Marine Corps from a peak of about 202,000 in fiscal year 2010 to 182,000 by fiscal year 2017.<sup>10</sup> None of the services' analyses discussed the current uncertainty about the future size of the force, partly because most of them were written before the current force-structure reductions were announced. These reductions may eliminate current housing deficits and create a disincentive for private-sector developers to participate in privatization projects.

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## Status of Military Services' Projects to Privatize Housing for Unaccompanied Personnel

Between 1996 and 2013, the Army and the Navy implemented seven privatized unaccompanied personnel housing projects. As stated previously in this report, both the Army and Navy have also used military construction funding to upgrade and renovate their housing for unaccompanied personnel. The Air Force and the Marine Corps have not used the privatization authorities, and are instead using military construction funds to improve the quality of their unaccompanied personnel housing. Air Force housing officials told us that the Air Force unaccompanied personnel housing inventory generally meets current housing needs. According to Marine Corps officials, the Marine Corps intends to eliminate existing housing deficiencies by demolishing inadequate unaccompanied personnel housing, and using military construction funds to replace or renovate such housing by the end of fiscal year 2014. According to Office of the Secretary of Defense and

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<sup>10</sup>Department of Defense, *Defense Budget and Priorities* (Washington, D.C.: January 2012).

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military-service housing officials, none of the services have plans to pursue any future privatized housing projects for unaccompanied personnel.

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### The Army Has Five Projects to Privatize Housing for Unaccompanied Personnel

The Army has projects to privatize housing for unaccompanied personnel at five locations. Four of these projects are at Fort Irwin, California; Fort Drum, New York; Fort Bragg, North Carolina; and Fort Stewart, Georgia. At each of these locations, sufficient adequate and affordable housing was not available off the installation. These projects were intended to house unaccompanied personnel at pay grades E-6/Staff Sergeant and above, who are eligible to receive the BAH. In 2012, the Army made a decision to implement a fifth privatization project at Fort Meade, Maryland, for unaccompanied personnel E-5/Sergeant and below.<sup>11</sup> These junior unaccompanied personnel currently receive the BAH and are living off the installation because Fort Meade does not have enough housing for unaccompanied personnel on-site. The initial development cost for the Army projects was about \$219 million, all of which was incurred by the privatized housing project companies.<sup>12</sup> The development costs generally included the costs of construction and project financing. The Army's investment in the projects was in the form of land leased to the privatized housing project companies to serve as the sites for the projects. Table 2 summarizes the status of the Army's five projects to privatize housing for unaccompanied personnel.

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<sup>11</sup>The Fort Meade project is not specific to Army junior enlisted unaccompanied personnel (E-1 /Private to E-5/Sergeant). It includes all DOD junior enlisted personnel permanently assigned to Fort Meade.

<sup>12</sup>The privatized housing project companies are entities that include both the private-sector developers and the Army.

**Table 2: Status of the Army’s Five Projects to Privatize Housing for Unaccompanied Personnel**

| Installation                | Date first apartment opened     | Status               |                                 |                              | Average occupancy rate, calendar years 2009-2013 (%) <sup>b</sup> |      |      |      |      |
|-----------------------------|---------------------------------|----------------------|---------------------------------|------------------------------|---|------|------|------|------|
|                             |                                 | Number of apartments | Number of bedrooms <sup>a</sup> | Targeted residents           | 2009  | 2010 | 2011 | 2012 | 2013 |
| Fort Irwin, CA              | September 2008                  | 200                  | 200                             | E-5/ Sergeant and above      | 96  | 98   | 86   | 97   | 99   |
| Fort Drum, NY               | February 2009                   | 192                  | 320                             | E-6/Staff Sergeant and above | 66  | 93   | 99   | 99   | 88   |
| Fort Bragg, NC <sup>c</sup> | February 2009                   | 312                  | 504                             | E-6/Staff Sergeant and above | 73  | 77   | 96   | 96   | 95   |
| Fort Stewart, GA            | November 2008                   | 334                  | 370                             | E-6/Staff Sergeant and above | 64  | 77   | 97   | 95   | 86   |
| Fort Meade, MD              | Projected completion is in 2014 | 432                  | 816                             | E-5/Sergeant and below       |   |      |      |      |      |
| <b>Total</b>                |                                 | <b>1,470</b>         | <b>2,210</b>                    |                              |   |      |      |      |      |

Source: GAO analysis of DOD data.

<sup>a</sup>Each apartment may have one or two bedrooms, so the number of apartments and the number of bedrooms may not be the same.

<sup>b</sup>The average occupancy is the mean and is based on the number of apartments occupied.

<sup>c</sup>The information for Fort Bragg does not include data for the second phase of the project.

Details about each project follow.

**Fort Irwin, California**

Fort Irwin, California, was the Army’s first project to privatize housing for unaccompanied personnel—specifically, for senior unaccompanied personnel at the rank E-5/Sergeant and above. In March 2004, DOD included 200 apartments for these senior unaccompanied personnel to existing privatized housing for military families because of a shortage of affordable housing off the installation. However, these apartments did not open until September 2008, and construction on all apartments was completed by 2011. These apartments each have one bedroom. The privatized housing project company’s cost was about \$29.1 million.

**Fort Drum, New York**

In 2005, the Army approved the expansion of the existing Fort Drum, New York, project to privatize housing for families to add 192 apartments for senior unaccompanied personnel of the rank E-6/Staff Sergeant and above. At this time, the Army changed its housing allowance policy and

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allowed E-6/Staff Sergeants to live off the installation and receive the BAH. Prior to 2005, only unaccompanied personnel at pay grade E-7/Sergeant First Class and above were eligible to receive the BAH. In February 2009, the Army opened its first apartments for these senior unaccompanied personnel, and in May 2009 completed construction on all apartments. There are 64 apartments with one bedroom and 128 apartments with two bedrooms, for a total of 320 bedrooms. The privatized housing project company's cost was about \$31.1 million.

#### Fort Bragg, North Carolina

In 2006, the Army approved a limited expansion of the existing Fort Bragg, North Carolina, project to privatize housing for families to add 312 apartments for senior unaccompanied personnel of the rank E-6/Staff Sergeant and above. In February 2009, the Army opened its first apartments for these senior unaccompanied personnel, and completed construction of all the apartments by January 2010. There are 120 apartments with one bedroom, and 192 with two bedrooms, for a total of 504 bedrooms. The privatized housing project company's cost was about \$37.8 million. In May 2012, the Army approved the second phase of the Fort Bragg project, which added 120 apartments with a total of 198 beds. Construction began in 2012, and is scheduled for completion in 2014. The cost for the second phase was about \$14 million.

#### Fort Stewart, Georgia

In 2006, the Army approved a limited expansion of the existing Fort Stewart, Georgia, project to privatize housing for families to add 334 apartments for unaccompanied personnel of the rank E-6/Staff Sergeant and above. In November 2008, the Army opened its first apartments for these senior unaccompanied personnel, and completed construction on all the apartments by October 2009. There are 298 apartments with one bedroom, and 36 apartments with two bedrooms, for a total of 370 bedrooms. The privatized housing project company's cost was about \$37.2 million.

#### Fort Meade, Maryland

While junior unaccompanied personnel (E-5/Sergeant and below) typically are not authorized to receive the BAH, Fort Meade does not have enough government-owned housing on the installation, so more than 50 percent of the junior unaccompanied personnel there are currently receiving the BAH and are living off the installation. In an effort to bring these junior unaccompanied personnel back onto the installation, in 2012 the Army reached an agreement with a private-sector developer to provide privatized housing for junior unaccompanied personnel at Fort Meade. The project is scheduled to open this year (April 2014), and with this project the Army will provide 432 apartments to junior unaccompanied personnel, with 40 apartments having one bedroom and

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388 having two bedrooms, for a total of 816 bedrooms. The privatized housing project company's cost is about \$70 million.

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### The Navy Has Two Projects to Privatize Housing for Junior and Mid-Level Unaccompanied Personnel

In 2002, Congress amended the MHPI to provide the Navy with the authority to carry out not more than three pilot projects using the private sector for the acquisition or construction of unaccompanied personnel housing.<sup>13</sup> The amendment to the MHPI also authorized the payment of higher rates of partial BAH to personnel occupying housing acquired using the pilot authority.<sup>14</sup> The Navy implemented two such projects—at San Diego, California, and at Hampton Roads, Virginia—before its pilot authority expired on September 30, 2009.<sup>15</sup> According to Navy officials, these locations were selected because both are fleet concentration areas, and the privatization projects also support the Navy's Homeport Ashore Program.<sup>16</sup> The Navy's projects include 8 existing buildings (1 at San Diego and 7 at Hampton Roads) that the Navy conveyed to the private-sector developer and 91 new buildings (3 at San Diego; 1 mid-rise building and 87 "manor homes," each consisting of five two-bedroom apartments, at Hampton Roads). San Diego has 2,398 bedrooms, while Hampton Roads has 3,682 bedrooms, for a total of 6,080 bedrooms. The development costs for both projects totaled around \$1.1 billion, of which the Navy provided cash equity investments of about \$80 million, with the developers providing about \$1 billion. The developers' costs generally included the costs of construction, project financing, and operating expenses. Table 3 summarizes the status of the Navy's two projects to privatize housing for junior and mid-level unaccompanied personnel.

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<sup>13</sup>Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314 § 2803 (2002).

<sup>14</sup>Section 2881a(c) of Title 10 of the United States Code authorizes the Secretary of Defense to prescribe and pay higher rates of partial BAH for members occupying housing acquired under this pilot authority.

<sup>15</sup>The Hampton Roads project is located at Naval Station Norfolk, which is geographically located in the Commonwealth of Virginia, in an area commonly referred to as Hampton Roads.

<sup>16</sup>The Navy's Homeport Ashore Program was initiated to minimize the number of sailors living aboard ship while docked in the ship's home port.

**Table 3: Status of the Navy’s Two Projects to Privatize Housing for Junior and Mid-Level Unaccompanied Personnel**

| Installation                | Date awarded  | Status               |                                 | Targeted residents   | Average occupancy rate, calendar years 2009-2013 (%) <sup>b</sup> |      |      |      |      |
|-----------------------------|---------------|----------------------|---------------------------------|--|---|------|------|------|------|
|                             |               | Number of apartments | Number of bedrooms <sup>a</sup> |  | 2009  | 2010 | 2011 | 2012 | 2013 |
| Naval Station San Diego, CA | December 2006 | 1,199                | 2,398                           | E-4/Petty Officer Third Class with less than 4 years of service and below (existing building); E-4/Petty Officer Third Class with more than 4 years of service to E-6/Petty Officer First Class (new building) | 77  | 94   | 95   | 96   | 98   |
| Naval Station Norfolk, VA   | December 2007 | 1,913                | 3,682                           | E-4/Petty Officer Third Class with less than 4 years of service and below  | 95  | 90   | 95   | 94   | 94   |
| <b>Total</b>                |               | <b>3,112</b>         | <b>6,080</b>                    |  |   |      |      |      |      |

Source: GAO analysis of DOD data.

<sup>a</sup>Each apartment may have one or two bedrooms, so the number of apartments and the number of bedrooms may not be the same.

<sup>b</sup>The average occupancy is the mean and is based on the number of bedrooms occupied.

Details about each project follow.

**San Diego, California**

In December 2006, the Navy awarded its first pilot project to privatize housing for junior unaccompanied personnel at Naval Station San Diego, California. The project included the privatization of one existing building and the construction of three new buildings. According to Navy officials, the existing building includes 258 “modules” built to the 1995 DOD standards for housing for unaccompanied personnel, each featuring two sleeping rooms and a small common area. The new buildings include 941 “market-style” two-bedroom apartments, and, in total, the San Diego project provides 2,398 bedrooms. The existing building, which was conveyed to the developer, was intended to house junior unaccompanied personnel (E-4/ Petty Officer Third Class and below), and the new buildings were intended to house mid-level unaccompanied personnel (E-4/ Petty Officer Third Class with more than 4 years of service to E-6/Petty Officer First Class). The three new buildings became available to rent within a 4-month period, beginning in December 2008. Navy officials told us that delivering 1,882 new beds within 4 months caused significant occupancy challenges, and that the target population of E-4 to E-6 has

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never been realized because of the on-base location of the project. In addition, they stated that while the sailors recognize the superior facilities and amenities, they are reluctant to return to quarters inside the installation's fence line with restricted access for their friends and family. Therefore, the private-sector developer and the Navy decided to temporarily expand the target demographic from E-4 with more than 4 years of service through E-6 to now include Homeport Ashore sailors and junior shore-based sailors (E-4 and below).

According to Navy officials, this shift has largely solved the occupancy challenges, yet it has strained revenues for the private developer, as Homeport Ashore sailors receive only a partial BAH rate based on the market rent for the existing building, but the private-sector developer's financial projections were based on the market rent for the new buildings. The new buildings were constructed to higher standards compared with the existing one, and have a higher rent structure that is equivalent to current market rents for comparable housing in the San Diego area. The Navy's evaluation of the developer's proposed budget for 2013 noted that although the overall occupancy rate for the San Diego project at the end of 2012 was about 96 percent, the revenues being received were insufficient to sustain the project over the long term. Therefore, in June 2013, the Office of the Assistant Secretary of the Navy (Energy, Installations and Environment) requested the Under Secretary of Defense (Personnel and Readiness) to authorize a higher partial rate of the BAH for junior unaccompanied sailors residing in the new buildings. The higher partial rate of BAH requested would be equivalent to the market rents for the new buildings. In September 2013, the Office of the Assistant Secretary of Defense approved the Navy's request for an increase in the partial rate for the BAH. The private-sector developer's cost for the project was about \$321 million, with the Navy providing a cash equity investment of about \$43 million for a total of about \$364 million. Figure 1 shows a bedroom in one of the new buildings at San Diego, California.

**Figure 1: Bedroom in New Unaccompanied Housing Project at San Diego**



Source: GAO.

## Hampton Roads, Virginia

The Navy's Hampton Roads, Virginia, project, awarded in December 2007, was built to house junior unaccompanied personnel (E-4/Petty Officer Third Class with fewer than 4 years of service and below). The project included 7 existing buildings on two installations (Naval Station Norfolk, Virginia, and Naval Support Activity, Norfolk, Virginia) that were conveyed to the developer and 88 newly constructed buildings on three separate locations off the installation. Although the new buildings are off the installation, two locations are on Navy property leased to the developer, and one location (Newport News) is on land donated by the city. In total, the Hampton Roads project includes 1,913 apartments and 3,682 bedrooms. Specifically, the 7 existing buildings include 723 apartments and 1,315 bedrooms, and the 88 new buildings include 1,190 apartments and 2,367 bedrooms. According to Navy officials, the Hampton Roads project initially struggled to meet lease expectations because of the reluctance of commanding officers to allow sailors off their ships. As a result, the Commander, Naval Surface Force Atlantic, directed commanding officers to comply with the Navy's Homeport Ashore



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initiative by allowing sailors to move off the ship. The private-sector developer's cost for the project was about \$713 million, with the Navy providing a cash equity investment of \$37 million for a total of about \$750 million. According to data provided by the Navy, the project's average occupancy rate is about 94 percent.

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## Agency Comments

We are not making any recommendations in this report. DOD opted not to provide formal comments on a draft of this report, but provided technical comments, which were incorporated into this report as appropriate.

We are sending copies of this report to appropriate congressional committees; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. In addition, this report will be available at no charge on our website at <http://www.gao.gov>.

If you or your staff has any questions about this report, please contact me at (404) 679-1875 or [curriec@gao.gov](mailto:curriec@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix I.



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# Appendix I: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

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# Related GAO Products

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*Defense Infrastructure: Improved Guidance Needed for Estimating Alternatively Financed Project Liabilities.* [GAO-13-337](#). Washington, D.C.: April 18, 2013.

*Military Housing: Enhancements Needed to Housing Allowance Process and Information Sharing Among Services.* [GAO-11-462](#). Washington, D.C.: May 16, 2011.

*Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets.* [GAO-09-352](#). Washington, D.C.: May 15, 2009.

*Military Housing: Management Issues Require Attention as the Privatization Program Matures.* [GAO-06-438](#). Washington, D.C.: April 28, 2006.

*Military Housing: Further Improvements Needed in Requirements Determination and Program Review.* [GAO-04-556](#). Washington, D.C.: May 19, 2004.

*Military Housing: Better Reporting Needed on the Status of the Privatization Program and the Costs of Its Consultants.* [GAO-04-111](#). Washington, D.C.: October 9, 2003.

*Military Housing: Opportunities That Should Be Explored to Improve to Housing and Reduce Costs for Unmarried Junior Servicemembers.* [GAO-03-602](#). Washington, D.C.: June 10, 2003.

*Military Housing: Management Improvements Needed as the Pace of Privatization Quickens.* [GAO-02-624](#). Washington, D.C.: June 21, 2002.

*Military Housing: DOD Needs to Address Long-Standing Requirements Determination Problems.* [GAO-01-889](#). Washington, D.C.: August 3, 2001.

*Military Housing: Continued Concerns in Implementing the Privatization Initiative.* [GAO/NSIAD-00-71](#). Washington, D.C.: March 30, 2000.

*Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed.* [GAO/NSIAD-98-178](#). Washington, D.C.: July 17, 1998.

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