

**2007**

**ADC**

**Advancing Public-Private  
Partnerships in Defense  
Communities: An ADC Policy Paper**





## About the Association of Defense Communities

The Association of Defense Communities (ADC) is the nation's premier membership organization serving America's defense communities. With 1,200 members nationwide, ADC is the voice for communities and states with a significant military presence. ADC unites the diverse interests of communities, state governments, the private sector and the military on issues of base closure and realignment, community military partnerships, defense real estate, mission growth, mission sustainment, military privatization, and base redevelopment.

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## Executive Summary

The Association of Defense Communities offers the following policy recommendations that would help advance the development of relationships between the private sector and the military services for public-private partnerships at growing installations:

1. No single partnership program or authority is a solution that will meet the diverse needs of the military. There needs to be a real property partnership toolbox that includes a range of programs that matches the dynamic needs of installations.
2. Private sector interest in partnership tools can be maximized by creating programs that allow for creative implementation solutions by the military services, have well-defined goals, and can be financed in private markets.
3. The Office of the Secretary of Defense (OSD) should take a leadership and oversight role for partnership programs that would not only help to identify opportunities, but also encourage creative responses to market conditions.
4. Military personnel, particularly at the installation level, need to focus on increasing the real estate and partnership knowledge base of military personnel.
5. OSD and the military services must continue to embrace and recognize the critical role that communities and states play in encouraging, supporting, participating in and sustaining partnerships.

## Introduction

The challenge of military transformation in this era has created an opportunity to take a fresh look at how public-private partnerships can leverage and expand DoD's investment in military facilities. Private investment never will replace traditional military construction appropriations, but it can create an additional funding stream. Existing DoD public-private partnership tools such as housing and utilities privatization and enhanced use leasing have been successful in leveraging DoD resources at installations. Going forward, though, we must consider questions such as: How can partnerships support the current needs of transformation and growth communities? How can partnership opportunities be expanded and obstacles removed? Is the private sector ready to invest?

Our nation's military base infrastructure is experiencing one of the most significant transformations ever. Dominated by the largest list of Base Closure and Realignment (BRAC) actions in history, this transformation has multiple fronts, including the global repositioning of military assets, the Army's initiative to create a modular force, and the "Grow the Force" initiative to expand the military.

BRAC is the most critical — and most expensive — installation transformation program for the Defense Department (DoD). Current estimates for implementing the 2005 BRAC actions over the six-year implementation timeframe (ending in 2011) are \$33 billion, with three-quarters of that money dedicated to new construction. At the same time, the global war on terror and other priorities are severely straining federal resources. DoD and the military services are confident the BRAC recommendations will be implemented within the statutorily required six-year period, but acknowledge that resources will be focused on "mission



critical” needs.

Meeting the full requirements of the military services and the communities that will see growth as a result of BRAC decisions will require using public-private partnerships and other market enterprises to complement traditional military construction funding. This need for private investment could increase if DoD’s future budget requests to Congress are not fully funded, or if there are significant delays in the congressional approval of these funds.

Military restructuring is having major impacts outside the gates of the installations. Communities adjacent to the more than a dozen gaining installations will be experiencing an influx of military personnel, family members and contractors in the coming years that will be measured in the tens of thousands. For these communities, it is a population boom that will require significant expenditures for new facilities such as housing, roads, schools and utilities infrastructure.

This paper summarizes ideas expressed by defense community, military and private sector leaders at ADC events dating back to mid-2006.

## DoD Perspectives on Partnerships

Budget cuts in the 1980s and 1990s compelled many components of the federal government — including DoD — to look at real estate in a different way, and in some cases, as an underused revenue-generating asset that could support mission-critical needs. This led to innovative programs such as housing privatization, utilities privatization, enhanced use leasing and other partnership efforts that can maximize the value of military real estate.

Partnerships between the military and the public and private sectors generally have been beneficial to all parties, especially in dealing with underutilized assets. Most notably, the housing privatization efforts that began in the late 1990s have met the department’s goal of replacing all substandard housing by 2007.

The family housing privatization initiative allows the military services to use private markets to redevelop housing in a timely and efficient manner. Rather than DoD relying on the traditional military construction process to fund housing redevelopment, developers obtain financing based on the revenue stream generated by the military personnel’s housing allowance and construct privately owned rental housing for military members as a long-term business investment.

A tool that has grown in popularity recently is enhanced use leasing (EUL), which is viewed by some as the answer to the military’s current challenge of limited resources. EUL allows military installations to lease non-excess real property to the private sector in return for cash or in-kind services that are used to support numerous base operating functions, including the construction or acquisition of new facilities, the repair or improvement of properties or facilities, the lease of other facilities, and facility operations.

Programs such as EUL provide important tools to installations for partnering with the private markets, but DoD is quick to point out that no one program can solve all of its funding challenges. In the case of EUL,



its application is project-specific and its function limited by legislation. Despite these challenges, there is general agreement that EUL is a powerful tool whose true potential still is evolving.

Outside EUL, the partnership options available to the military are limited, and creating new authorities has not been easy. Some existing concepts, such as the city-base concept at the former Brooks Air Force Base in San Antonio, Texas, have not been expanded beyond a pilot project. Other partnership authorities, including a land-for-military-construction exchange, only have been approved recently after stalling in Congress.

On a more practical level, while the military services, especially the Army, are providing significant program support, implementing partnerships like EUL require significant time and effort from installation staff. There needs to be a champion on the base to make the project succeed. With current budget challenges forcing installations to focus on meeting core needs, there is a concern that finding time to nurture partnerships may be limited. Beyond the lack of resources, there is a lack of understanding of partnership opportunities and how the private sector works.

## Private Sector Views of Partnerships

Given the size and scope of military transformation, and DoD's increased focus on partnerships, opportunities for the private sector are on the rise. This particularly is true at growing installations, where construction needs are the most acute.

Developers with experience in DoD public-private partnerships generally view them as high-quality real estate deals. DoD's objectives for a project help create a defined universe that has a level of market certainty. A project's built-in demand from DoD tenants or an assured revenue stream, as in the case of housing or utilities privatization, improves financing opportunities. It also creates a unique opportunity to develop assets that normally are not available for development.

At the same time, public-private projects are not typical real estate transactions, so patience and creativity are necessary. The three military services have ultimate control over how partnership authorities are implemented and this creates three distinct approaches to how projects are identified and managed. Moreover, it can be difficult for the private sector to identify the opportunities and scope of what might be needed, especially when DoD's BRAC-specific plans are uncertain.

Another issue that limits the private sector's ability to carry out successful partnerships is DoD's management of project timelines. The private sector risks losing the market opportunity, along with financing, if DoD does not meet agreed-upon timetables. Financing also can be a challenge when the deal lacks transparency, adequate term length, sufficient termination clauses, and business-like terms and conditions in contracts.

## Policy Ideas & Recommendations

The opportunity to use partnerships as a tool for creating sustainable military installations is only beginning to be realized. While the military's real estate sophistication continues to increase, reaching the full potential of defense real estate as a marketable asset will require robust policies and programs that meet the



changing requirements and needs of defense installations. In his keynote address at the 2006 ADC Defense Policy Forum, Deputy Undersecretary of Defense Phil Grone declared: “There is an enormous opportunity to change how we do business and the results we expect. Partnerships have to be part of our long-term approach to sustaining installations.”

The following recommendations explore several policy ideas that will assist in further bringing together the private market and the military services for entering public-private partnerships at growing installations:

1. No single partnership program or authority is a solution that will meet the diverse needs of the military. There needs to be a real property partnership toolbox that includes a range of programs that matches the dynamic needs of installations. In creating this robust toolbox, Congress should consider new authorities that:
  - a. Build on the best practices and programs of other federal agencies, like GSA’s exchange authority; and
  - b. Create pilot authorities and expand existing pilot authorities, like the Army’s municipal services program or the Air Force’s “city-base” concept.Also in this context, Congress should work with DoD and the White House Office of Management and Budget to identify new programs based on emerging issues, convene field hearings to receive input from the private sector/communities, and examine one-time authorities that could now have a broader reach.
2. Private sector interest in partnership tools can be maximized by creating programs that have (1) strong DoD support that enhances flexible and creative implementation by the military services; (2) clearly defined objectives and roles for the private and public sectors; and (3) robust and responsive deal structures that can be financed in the private markets.
3. The Office of the Secretary of Defense (OSD) should provide broad program-level guidance and executive oversight for partnership programs. While recognizing the need for implementation flexibility among the military services, it is essential for DoD to provide a general policy and legal foundation that not only helps to identify opportunities, but also encourages creative approaches in response to private sector market conditions. Also, congressional leaders must understand the value of partnerships, and OSD leadership and oversight should further demonstrate their significance.
4. Creating and sustaining successful partnerships requires knowledge of how the private sector works, an understanding of how deals come together and an appreciation of the rationale and need for these partnerships by installation personnel. By their own admission, this skill set sometimes is lacking within the military. There needs to be a focus on increasing the real estate and partnership knowledge base of military personnel, especially at the installation level.
5. Communities and states play an important role in encouraging, supporting, participating in and sustaining partnerships. OSD and the military services must continue to embrace and recognize this role.

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