



# The Promise of **PUBLIC-PRIVATE PARTNERSHIPS**

Principles and Proposals for the Next President



Report of the Forum on  
Privatization and Partnerships

**AUGUST 2008**

# THE PROMISE OF PUBLIC-PRIVATE PARTNERSHIPS: PRINCIPLES AND PROPOSALS FOR THE NEXT PRESIDENT

## REPORT OF THE FORUM ON PRIVATIZATION AND PARTNERSHIPS

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# SPONSORS

## Woodrow Wilson International Center for Scholars

The Woodrow Wilson International Center for Scholars (WWICS), established by Congress in 1968, is the official national memorial to President Wilson. The Center aims to unite the world of ideas to the world of policy by supporting preeminent scholarship and linking it to issues of concern to officials in Washington. As both a distinguished scholar and national leader, President Wilson felt strongly that the "scholar and the policymaker were engaged in a common enterprise." Today, the Center takes seriously his views on the need to bridge the gap between the world of ideas and the world of policy, bringing them into creative contact, enriching the work of both, and enabling each to learn from the other. The Wilson Center brings together influential thinkers and doers to engage in a dialogue on current and future public policy challenges, with the confident hope that through such discussions there will emerge better understanding and better policy.

## Urban Land Institute

The Urban Land Institute (ULI) is a nonprofit research and education organization supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Founded in 1936, the Institute has more than 40,000 members in more than 90 countries representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service. As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information, and experience among local, national, and international industry leaders and policy makers dedicated to creating better places.

## Jones Lang LaSalle

Jones Lang LaSalle (JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams to clients seeking increased value by owning, occupying, or investing in real estate. JLL has approximately 170 offices worldwide and operates in more than 700 cities in 60 countries. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.2 billion square feet worldwide. LaSalle Investment Management is one of the world's largest and most diverse in real estate with approximately \$50 billion of assets under management. JLL has been lead real estate consultant to the Army's Residential Communities Initiative; advised the Navy, Air Force, and other components of the Department of Defense on privatization issues; serves the Veterans Administration on Enhanced Use Leasing; and supports the General Services Administration on its leasing program.

## PREFACE

The Woodrow Wilson International Center for Scholars (WWICS) and the Urban Land Institute (ULI) are independent, non-profit, non-partisan organizations that help to shape public policies in various fields through research, education, meetings, and publications. While each organization has a unique mission and emphasizes different areas of study and practice, we share the belief that long-term prosperity, security, and effective governance rest in part on close and continuing cooperation between business and government to meet a wide range of public needs.

Thus, we responded enthusiastically when Mahlon (Sandy) Apgar, IV, proposed that he convene a small group of experienced government officials, business executives, thought-leaders, and scholars under our auspices to produce a policy agenda on privatization and partnerships for the next Presidential Administration. We agreed that a discussion forum and related research could yield important insights for public policy and private enterprise.

During the ULI-WWICS Forum, participants examined the progress and problems of privatization and partnerships in military housing and considered the potential for broadening the principles and practices to other public needs. Their deliberations, as well as external research and other meetings, inform the findings and proposals in this report. Our organizations do not advocate specific policies and recommendations, but we commend the report for consideration by the Presidential aspirants and their advisors.

Lee H. Hamilton  
President and Director  
Woodrow Wilson International Center for Scholars

Richard M. Rosan  
President, Worldwide  
Urban Land Institute



## EXECUTIVE SUMMARY

This Forum reviewed 10 years of progress in federal privatization and public-private partnership programs, called "P<sup>2</sup>" for short, primarily in the Department of Defense (DoD), the Department of Veterans Affairs (VA), and the General Services Administration (GSA). From the programs' successes and participants' experiences, the Forum concluded that wider use of P<sup>2</sup>s in selected federal functions could achieve public purposes more effectively, solve long-standing problems, and gain billions of dollars in efficiencies, savings, and value improvements, compared with conventional government actions.

The Forum defined five principles for a P<sup>2</sup> strategy to achieve these benefits, mainly through reforms in federal asset management and in selected public services:

- **Value:** P<sup>2</sup>s produce economic value through new forms of private sector participation, injecting business ingenuity, energy, efficiencies, and capital into federal agencies, and applying a "funding multiplier" to leverage government investment.
- **Solutions:** P<sup>2</sup>s solve complex, costly public problems in critical government functions such as housing, infrastructure, energy, and healthcare, with faster, cheaper, and better outcomes than government-driven programs.
- **Hurdles:** P<sup>2</sup>s overcome hurdles to encouraging broader business engagement in public problems through persistent, focused communications with key influencers, and through flexibility to meet unforeseen conditions.
- **Enablers:** P<sup>2</sup>s require motivated agencies, enabling authorities, dynamic markets with able and willing private enterprises, incentives for all parties to participate, and methods of managing risk.
- **Trust:** P<sup>2</sup>s establish and sustain trust through shared goals, incentives, and safeguards; transparent working relationships; and life-of-partnership agreements.

The Forum proposes five actions by the next President:

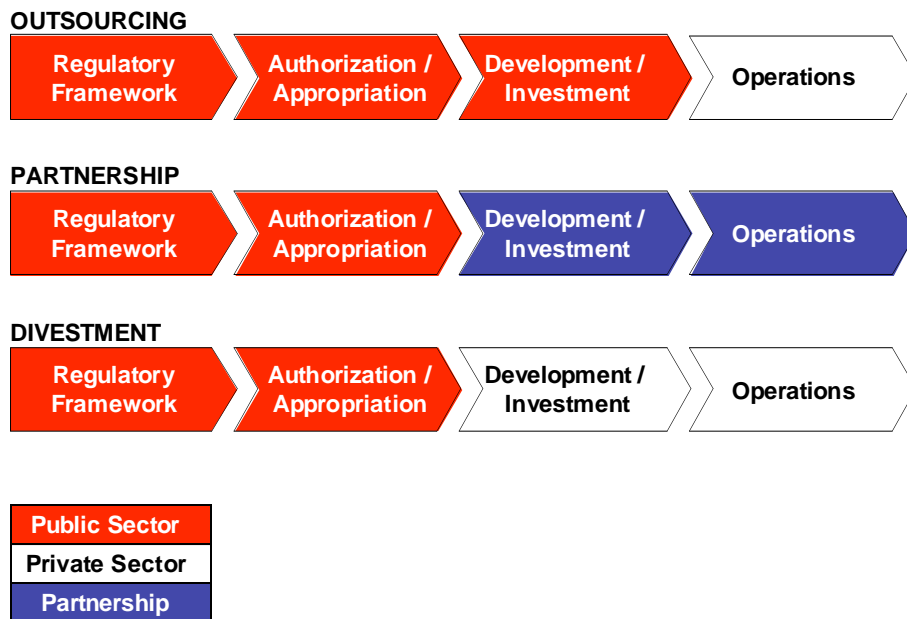
- **Endorse P<sup>2</sup> philosophy:** Endorse public-private partnerships as part of the Administration's philosophy for reform, by promoting wider reliance on business partners and proven approaches to producing economic value and solving public problems.
- **Appoint P<sup>2</sup> commission:** Appoint a commission on public-private partnerships to raise awareness of P<sup>2</sup>, identify and prioritize high-value opportunities, define the rationale for action, and galvanize support.
- **Establish P<sup>2</sup> office:** Establish an office of public-private partnerships to convert the commission's findings into agency actions, foster interagency alliances, and encourage P<sup>2</sup> program implementation through communications and public relations campaigns.
- **Institutionalize existing P<sup>2</sup> programs:** Institutionalize existing P<sup>2</sup> programs in DoD, VA, GSA, and other agencies by removing regulatory and procedural hurdles and ensuring adequate funding for the government's contribution.
- **Extend P<sup>2</sup> model to other functions:** Extend the Forum's P<sup>2</sup> model to other major federal functions -- e.g., housing, buildings, infrastructure, transportation, education / training, and healthcare; and explore other potentially high-value areas.

# INTRODUCTION

Partnerships with business change the way government works. By infusing private capital and capabilities with public purpose, government-business partnerships in selected public functions can meet many community and individual needs cheaper, faster, and better. Public-private partnerships do not supplant government, with its unique legitimacy and constitutional authority; instead, they improve the efficiency and effectiveness of many non-core government functions that are mirrored in the private sector. Through partnerships, the public and private sectors achieve goals that neither could accomplish alone.

Some of the best examples of such partnerships are found under the rubric of privatization, and the terms have been used interchangeably, if incorrectly, in recent years. With the advent of mixed economies, privatization described the *divestment*, or outright sale, of government-owned enterprises to the private sector, and *outsourcing*, or transfer of responsibility, of government functions to contractors. In the 1990s, the Clinton Administration broadened the interpretation of privatization to include many forms of shared ownership and management between government and business through public-private partnerships. The landmark 1996 legislation named "Military Housing Privatization Initiative" (MHPI), discussed later in this report, specifically embraced such partnerships in spirit and in form. This policy has been continued and strengthened by the Bush Administration. (See "*Privatization*" Models.)

## "PRIVATIZATION" MODELS Three Common Definitions of Privatization



Building on the MHPI authorities, I set up the US Army's Residential Communities Initiative, known as RCI, shortly after my appointment by President Clinton as Assistant Secretary of the Army for Installations and Environment in 1998. I had been given a mandate by the Administration and Congress to "fix the Army's housing problem." The solution was to

enlist the real estate industry, with its vast capabilities and resources, in long-term partnerships with the Army. Now in its tenth year, RCI has become one of the largest public-private partnership programs in the federal government. RCI demonstrates how business can help government to fulfill public needs and, in the process, produce innovations in the ways government meets those needs.

Military housing may seem an unlikely foundation for a discussion of partnering in other government functions. Both business and civic leaders ask how a military program, even if successful, would be relevant to meeting non-military public needs. The short answer is that the military is in many ways a microcosm of American society and, in recent years, has been an inventive test bed for transformation in its structure and processes. Military installations are small cities, with nearly all of the functions, most of the problems, and many of the solutions demonstrated by communities everywhere. In solving its housing problems and meeting other challenges requiring flexibility and creativity, the military has earned Americans' trust and respect.

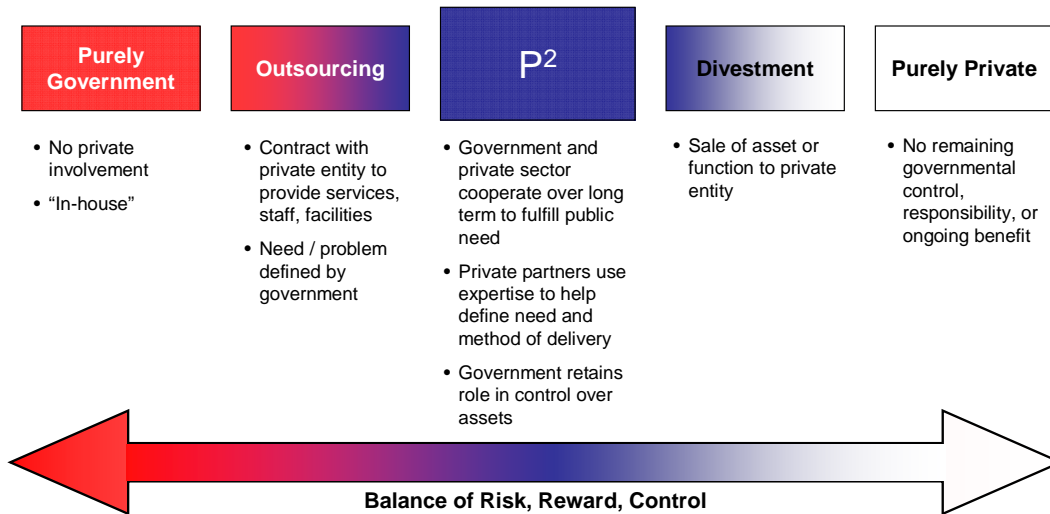
A more complete answer lies in the following pages as we examine the military model to discover how this large, complex government institution has fundamentally changed its policies and management approach by engaging the private sector in meeting a major challenge. The military has learned how to attract high-quality business partners and cooperate with them -- seizing opportunities to create efficiencies and provide market returns, structuring projects to balance rewards and risks, setting incentives to encourage excellent customer service, and involving many stakeholders in decision-making.

In April 2008, I invited 25 government officials, business executives, and thought leaders to review the lessons from RCI; identify other public-private partnerships undertaken by federal, state, and local agencies; and explore ways to adapt the RCI model in other federal government functions. Meeting as the Forum on Privatization, we sought to distill the participants' knowledge and experience of the private-public nexus into principles and proposed actions for consideration by the next Presidential Administration. The Forum was co-hosted by the Urban Land Institute (ULI) and the Woodrow Wilson International Center for Scholars (WWICS), with financial and staff support from Jones Lang LaSalle (JLL). (See *Participants and Expert Resources*.)

To resolve the semantic conundrum, we chose to append "Partnerships" to "Privatization." This convention, also enshrined in the Army Secretariat, embraces the spirit of government-business partnerships that, to the Forum participants, defines our topic and ensures more comprehensive treatment. From here on in this report, we will use the shorthand "P<sup>2</sup>" to denote joint public-private efforts whether they are called partnerships or privatization. (See P<sup>2</sup>: *Where Privatization and Partnerships Meet*.)

## P<sup>2</sup>: WHERE PRIVATIZATION AND PARTNERSHIP MEET

### P<sup>2</sup> Provides Optimum Balance of Government Risk, Reward, Control



We recognize that any reference to "privatization" in this report may be controversial because of its recent association with contracting excesses and breakdowns in Iraq. Without opining on those specifics, the Forum observed that such arrangements are strictly government outsourcing to contractors; they are not privatization as we use the term. We therefore ask readers to set aside the negative connotations about privatization. Dispensing with the term entirely in this report would ignore the many gains we describe below.

The Forum intentionally did not address P<sup>2</sup> for warfighting functions. Some of these are non-combatant in their purpose or roles and either are performed under P<sup>2</sup> principles or could be candidates for P<sup>2</sup> programs. However, the P<sup>2</sup> landscape is sufficiently large and opportune without confronting the philosophical, political, and operational difficulties of P<sup>2</sup> in the battlespace.

This report synthesizes the Forum discussions in April, a separate session on "lessons learned from military housing" at the ULI's spring conference in May, and a parallel research effort undertaken at WWICS. The findings and conclusions are built mainly on the focused thinking and dialogue of participants who brought some 500 years of experience to the table for purposeful, open discourse. The report is the product of a team effort and is written in the third person to reflect the group's collective wisdom. While the group's contributions were essential to producing this report and they are individually recognized in the Acknowledgments, no portion of this should be attributed to any individual or to the ULI, WWICS, or JLL; I take full responsibility for the report's contents.

Mahlon Apgar, IV  
*Baltimore, Maryland*  
*August 2008*



## ARMY RCI: A P<sup>2</sup> FOR MILITARY HOUSING

The Forum focused first on lessons learned from the Army's military housing privatization program, known as the Residential Communities Initiative (RCI). The principles and proposals in this report draw heavily on concepts and methods that have been institutionalized in RCI. Thus, the following background on RCI will help in understanding the remainder of this report. RCI demonstrates how a willing and able industry can work with government, in a spirit of collaboration and trust, to multiply public assets and services through private sector capital prowess and entrepreneurial zeal.

RCI was proposed to remedy severe problems in family housing on Army posts nationwide. Analysis in 1998 showed that 70,000 units -- three-quarters of the US inventory -- were substandard. Peeling paint, leaky plumbing, outdated designs, and drab neighborhoods were hurting recruiting, retention, and morale. Even so, waiting lists for on-post housing, favored by soldiers because it is affordable and convenient, were long. The maintenance backlog, combined with a shortage of on-post housing, exceeded \$7 billion. Because Army housing competed for resources with many other military priorities, full funding to fix the problem was unlikely to materialize. And by relying on traditional construction and management processes, the backlog would take at least 20 years to clear.

The Army's situation, mirrored in other Military Services, had led Congress to enact the landmark MHPI legislation in 1996. This gave the DoD and Service secretaries the authority to convey land and property to private businesses in exchange for housing renovation and construction. It allowed companies to build to market standards, instead of restrictive, complex military specifications; and it enabled them to receive soldiers' Basic Allowance for Housing (BAH) as their revenue stream. It also provided for a variety of risk-reduction measures in the case of base closures and long troop deployments. An effort to enlist the real estate industry to revitalize Army family housing had begun soon after the legislation passed, but had stalled due to issues about the procurement process and indecision about the desired scope, scale, and direction of the program.

In 1998, Mahlon (Sandy) Apgar was appointed Assistant Secretary of the Army for Installations and Environment (ASAI&E), with a mandate to solve the Army's housing problem. Drawing on his background in community development, Mr. Apgar saw an opportunity to transform the way the Army approached on-post housing. Until then, the focus was on production -- building and renovating houses. Instead, he envisioned master-planned, "New Urbanism" communities, with up-to-date homes that fit their natural surroundings in neighborhoods with amenities common to their civilian counterparts. He also emphasized preservation of the large stock of historic homes that define part of the Army's heritage in these military communities. His challenge was to persuade leaders that the American real estate industry could create a superior product more quickly and efficiently, at lower cost, and with better quality, than could the Army itself, and that developers could be attracted to work with the military in a collaborative partnership.

Two key Army officials were convinced and took an immediate interest. General Jack Keane, Army Vice Chief of Staff, began building support among senior officers. Dr. Bernard Rostker, Under Secretary of the Army, guided departmental approvals within the complex



organization and budgeting system. In DoD, Dr. Jacques Gansler, Under Secretary of Defense for Acquisitions, showed how existing mechanisms could jump-start the program; and Dr. John Hamre, Deputy Secretary of Defense, enhanced the proposal with his wisdom and protected it with his authority.

Similarly, in Congress, Representative Chet Edwards combined his real estate experience and a passion for soldiers' well-being to save RCI in the appropriations review process and promote it among his colleagues in the House Army Caucus. Other champions in the early incubation were Representatives Joel Hefley, who chaired the authorizing committee for MHPI; Norm Dicks, who served with Edwards on the Appropriations Subcommittee; and Senator Jack Reed, whose military credentials cemented support on the Armed Services Committee. These leaders took risks to give RCI a chance; they stayed the course as it matured; and they deserve much credit for the program's very existence as well as later success.

Mr. Apgar's meetings with developers and industry associations revealed that the scale of projects envisioned for RCI would attract highly-qualified partners, but the procurement process discouraged them. Government contracting had a reputation for rigid, formulaic procedures and an emphasis on process over problem-solving. The typical Request for Proposal (RFP) document was hundreds of pages long, with detailed instructions for building the final product. Responding to RFPs was expensive and time-consuming. The process favored companies with expertise in government procedures -- wholly different skills from those required to develop communities. In fact, the RFP process dissuaded companies from applying their own creativity and skills to defining and solving the problem. Mr. Apgar assembled a task force to address this and other hurdles, and found the solution in the Request for Qualifications (RFQ), a little-used procurement method that asked companies to document their experience, financial and management capabilities, and vision for the project in shorter, simpler formats.

An RCI Program Office was set up within the ASAI&E organization, modeled on the long-established program management units for complex weapons systems, and the RCI team began building the business case for change. The RCI Office hired JLL as real estate consultant to provide skills in structuring and valuing individual projects, evaluating developers' proposals, and negotiating final contracts. With their and others' expert help, RCI received an "A" from debt-rating agencies, based chiefly on the longstanding security of the BAH.

Armed with the RFQ, the high bond rating, and large project packages of 2,000 to 6,000 housing units (compared to the few hundred for typical military projects), Mr. Apgar returned to the real estate community to market the program. The response was gratifying. Well-qualified firms from across the country, many of whom had never before bid on a government contract, responded to solicitations for pilot projects at Fort Hood, Texas; Fort Lewis, Washington; and Fort Meade, Maryland -- posts chosen for their diversity across a range of dimensions that would test the program's viability at scale, while containing financial, operational, and political risks. (A project begun earlier at Fort Carson, Colorado under an RFP was later brought into the RCI program.)

The Army-developer relationship in RCI demonstrates the change in mind-set from government "contractor" to business "partner." Under RCI, the selected developer spends the first year working with an on-post Army team to plan, in detail, the houses and amenities it will build and renovate, the financing it will contribute, and the maintenance and operating services

it will provide. Once this Community Development and Management Plan (CDMP) is approved by Congress, the developer takes possession of the existing housing (while the Army retains ownership of the land) and contracts to build, renovate, operate, and manage it for 50 years. The developer receives the soldiers' BAH as rent. Because their profits depend on high occupancy, and because soldiers can choose whether to live on post or off, the developers have a powerful incentive to create and maintain superior residential communities. RCI's combination of cash flow and site control allows developers to leverage the Army's investment with private capital.

RCI will have private partners in charge of all inadequate Army housing by early 2009 -- one year earlier than the original goal. The program will cover about 98 percent of the Army's family housing stock, or 88,000 homes, on 45 posts in 23 states. So far, 35 installations have RCI partnerships in place for 77,000 homes; the remainder is in solicitation or under development; and two of the original pilot projects are in their second development phases.

Balancing fundamental tradeoffs (e.g., cost vs. quality, speed vs. service, flexibility vs. standardization) as they do in the private sector, RCI partners have developed exceptional products. The housing units are spacious, modern, and appealing, with community centers, tot lots, green space, and other amenities. One post is piloting the incorporation of retail into housing neighborhoods. With the Army's long-standing emphasis on environmental stewardship, RCI developers are pioneering "green" building and management techniques. Neighborhoods of 150-300 homes are produced in 15-18 months compared with 3 to 5 years using previous methods. Customer service is quick and efficient, with a maintenance schedule that protects the investment long after construction. Army families are delighted, and their new housing is helping soldiers to join, stay, and more happily serve in the Army.

RCI communities are built and managed by nine major real estate groups which raised \$10 billion of new private capital, leveraging public funds approximately 11:1. RCI has matured to a sustainable partnership program not only because of its economic and operational logic, but also because of successive leaders' determination; bipartisan, non-ideological support; and persistence through two Administrations. JLL has developed a Portfolio and Asset Management (PAM) program to monitor the performance, compliance, and financial health of RCI projects. The following table summarizes major outcomes of RCI over the past decade:

### RCI OUTCOMES -- 1999-2008

Elements	Metrics / Indicators	Beneficiaries
Speed	50-200% faster than prior government approach	Soldiers, Army
Quality	100% market product; twice the number of maintenance inspections	Soldiers
Satisfaction	NCO: "I'll reenlist for an RCI home"	Soldiers, Army
Backlog / shortage	100% of housing deficit met; original maintenance backlog cleared	Soldiers, Army
Service	98% on-time response for maintenance problems	Soldiers
Construction costs	30% lower than prior government approach	Army
Development value	\$10 billion increase in 10 years	Army
Sustainment	100% lifecycle sustainment	Army
Funding	11:1 leverage of private-to-public funds	Taxpayers

Despite these successes, there have of course been problems as the program has moved rapidly ahead. Perhaps the most visible issue has been the replacement of original partners on five posts for inadequate performance. While arresting progress for a time, these actions have demonstrated the strength of the partnership structure and the CDMP process. New partners were found within 12 to 15 months, a reasonable time frame by business standards, and the projects have adapted to changing circumstances through negotiation instead of litigation. Elsewhere, initial occupancy rates have been lower than projected when families not assigned to new homes have opted to live off post. Intra-agency conflicts, Congressional interventions, and data gaps have sometimes hampered developers' abilities to plan and execute as efficiently as they expected. Standards and processes have been installed for building and environmental code compliance, but overall program-wide design and development quality assurance has yet to be implemented. Since RCI's organizational home was shifted, misalignments in decision-making and accountability have occurred. And some participants believe that the government is becoming enmeshed in tasks, such as routine change orders, that should be the business partner's responsibility, with consequent delays and added costs.

The severe capital and housing market disruptions in 2008 also have tested the RCI partnership ideal. For example, interest rate hikes increased costs for projects still in the CDMP stage, resulting in changes to scope from the planning objectives. Some stakeholders with traditional mind-sets believe that the changes represent violations or defaults. But as partners completing the CDMP process, the Army and developers have negotiated reasonable, pragmatic solutions -- for example, performing renovations and deferring new construction -- that deliver the program's broad objectives while adapting to specific capital market conditions. Flexible provisions for this kind of risk management are built into the RCI framework, helping to ensure that when unforeseen circumstances arise, the partnerships can survive.

From the problems and successes of RCI, a number of notable lessons can be distilled:

- Effective, lasting government-business partnerships require coalitions among numerous stakeholders across the political and commercial spectrum.
- Transparency in the structure and management processes is essential throughout the project lifecycle, both within the local installation and development teams, and when presenting the program to residents.
- Problems are resolved and decisions made more quickly when responsibility, authority, and resources are unified.
- Projects move more quickly and smoothly when the development team members have previously worked together.
- Plans are most effective when they build in flexibility to accommodate frequent, major changes in the market and business environment, when they present a range of outcomes, and when both partners understand what is contractually binding and what is not.
- Bi-partisan efforts, with leadership from both the executive and legislative branches, can overcome numerous obstacles to institutional change.

- Bold visions, clearly articulated with concrete objectives, can mobilize people and institutions and open the way to enduring change.

RCI is now the centerpiece of DoD's P<sup>2</sup> asset strategy, and the Army has commissioned an official history to study it in depth. During the past decade, the program has moved from idea to implementation and transitioned from central leadership by the secretariat to local management at military installations. The Bush Administration calls RCI the "most important military housing improvement program in our nation's history." And as one Forum participant emphatically stated, "RCI is the best government housing program ever conceived. What makes it successful is that the government figured out its goal and concentrated on that one goal with laser-like focus, turning aside all the many objections on spurious issues that so often compromise government programs." The current leadership has successfully built on the initial platform constructed during the Clinton era by creating the Army's Privatization and Partnerships Office, delegating authority to RCI program managers, and ensuring continuity through key senior executive staff appointments and expert consultants.

In the years since the program's launch, RCI staff and developers have continued to generate innovations in policy, planning, marketing, financing, design, and organization. Above all, RCI developers have met the housing industry's greatest challenge -- harnessing its full range of capabilities to produce beautiful homes for low- and moderate-income residents while protecting the environment, navigating the political process, and fostering business-government cooperation. In recognition of its achievements, RCI received a 2008 ULI Award for Excellence.

The RCI model holds much promise for partnering with business to solve other problems the military faces in managing its infrastructure. The Privatization of Army Lodging (PAL) initiative follows RCI principles in attracting hotel developer-operators to recapitalize and manage aging temporary lodging on posts. Programs for senior non-commissioned officers' quarters, single soldier housing (dormitories, apartments), retail and "lifestyle" centers, office parks, and warehouse developments are also in process. Long-term out-leasing of underutilized land and facilities is underway through a complementary program called Enhanced Use Leasing (EUL). RCI is increasingly linked to related programs for base realignments and closures (BRAC). The Navy, Marine Corps, and Air Force are pursuing their own P<sup>2</sup> programs, designed for their distinctive cultures and systems. Other federal departments -- as well as states and cities -- have expressed interest in how RCI's policies and practices could be adapted to their needs, and foreign governments are looking at the model for their military and civilian applications.

RCI has shown how the capital, expertise, and innovation of private enterprise -- in this case, developers, builders, and financial services -- can be marshaled to provide soldiers and their families with a quality of life on par with other Americans they are pledged to serve and defend. They should expect, and receive, nothing less.

\* \* \* \*

## RCI: BEFORE AND AFTER



**FORT BELVOIR, VIRGINIA**, was the first Residential Communities Initiative (RCI) community to incorporate apartments for all military ranks above retail space (left). The Army post also offers new RCI housing for company-grade officers and their families (above).



Multiplexes for junior enlisted and junior noncommissioned officers (NCOs) were built in the late 1940s at **FORT HOOD, TEXAS** (above). The post's junior enlisted and junior and senior NCOs can now live in RCI duplexes (right).



A new RCI community for junior enlisted soldiers and their families (above left) takes the place of older, pre-RCI townhomes (above right) at **FORT STEWART, GEORGIA**.

## PRINCIPLES

From the success of RCI, as well as other P<sup>2</sup> programs in the DoD, the VA, and the GSA, the Forum concluded that wider use of P<sup>2</sup>s in selected federal functions could achieve public purposes more effectively, solve long-standing problems, and gain billions of dollars in efficiencies, savings, and value improvements, compared with conventional government actions. The Forum defined five principles for a P<sup>2</sup> strategy to achieve these benefits, mainly through reforms in federal asset management and in selected public services.

To be chosen over government-only solutions, P<sup>2</sup> programs and projects must *produce economic value* and *solve public problems*. *Hurdles* arising from the way government operates limit the potential for successful P<sup>2</sup> programs and must be overcome. P<sup>2</sup> *requires enablers and incentives* to develop programs that interest business. Finally, if structured correctly, P<sup>2</sup> *builds the trust* necessary for the private sector to contribute its ideas, energy, and capital.

In this section, we summarize selected projects that reflect both the principles and the wide array of P<sup>2</sup> possibilities. The variety and ingenuity displayed in these examples vividly illustrate the benefits P<sup>2</sup> can confer on agencies, their customers, and taxpayers. However, the summaries result from a limited research effort; they are indicative, not comprehensive, and the numeric data are not definitive.

The federal government's real property asset base is also a major platform for the principles and proposals in this report. Some of the value in these assets can be activated as P<sup>2</sup>s build, renovate, occupy, and/or re-use government land and facilities. In fact, DoD's P<sup>2</sup> programs have achieved a remarkable 12:1 "funding multiplier" through such strategies.

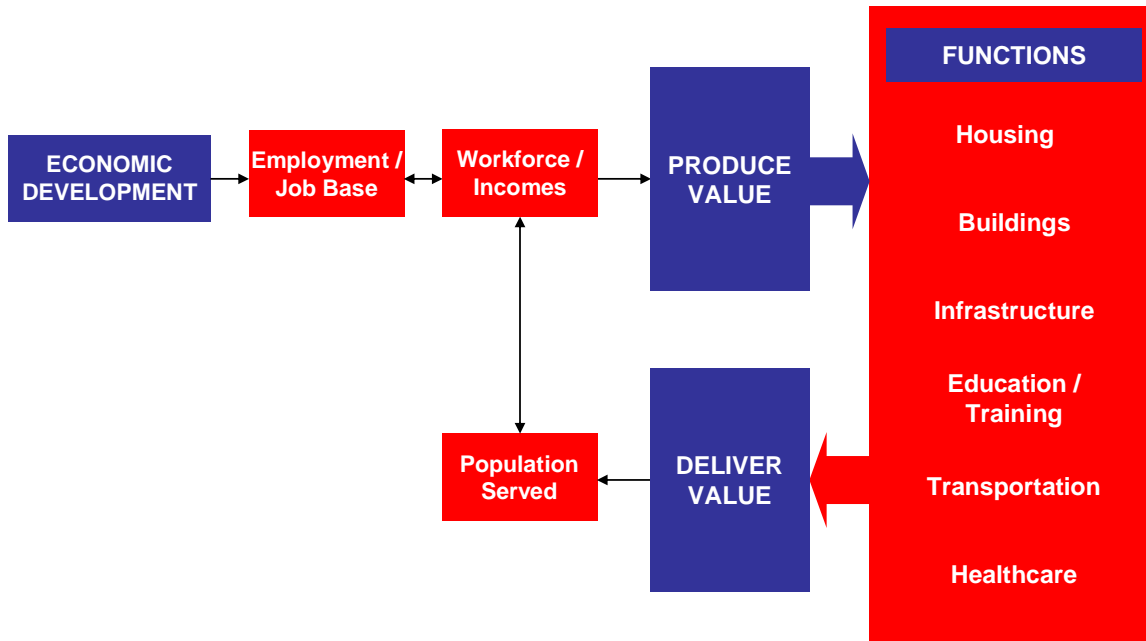
### PRINCIPLE ONE: P<sup>2</sup> PRODUCES VALUE

*P<sup>2</sup>s produce economic value through new forms of private sector participation, injecting business ingenuity, energy, efficiencies, and capital into federal agencies, and applying a "funding multiplier" to leverage government investment.*

P<sup>2</sup>s produce economic value in the form of recapitalized and lower-cost assets (e.g., buildings, facilities, land, infrastructure, equipment) or more effective and lower-cost services (e.g., housing, transportation, healthcare, education). Over the life of a P<sup>2</sup> project, its total economic value is significantly greater than the current or short-term costs on which government budgets usually focus. P<sup>2</sup>s, if deftly designed, may also create a ripple effect of value in their surrounding communities, as they not only help the government fulfill its program mandates, but also foster economic development necessary to support the partnership. (See *P<sup>2</sup> Produces Value*.)

The RCI summary above and EUL examples below illustrate this principle in practice. To apply the principle, lifecycle analysis (explained below) is critical in justifying projects and in measuring their long-term success. Because P<sup>2</sup>s are an alternative to conventional federal programs in achieving public goals, the features of federal budgeting and the value of the "funding multiplier" should be well understood in assessing P<sup>2</sup> progress and outcomes.

**P<sup>2</sup> PRODUCES VALUE**  
**Economic Development Enables Private Investment in Public Functions**



**Enhanced Use Leasing (EUL)**

EUL is one of the main P<sup>2</sup> tools for producing value. EULs allow government agencies to leverage underutilized land, buildings, or other assets by entering into long-term leases, with rent paid by the developer in the form of cash or in-kind services for construction of new facilities; facilities maintenance, improvement, or repair; and payments for utility services.

In large projects with many "moving parts," EULs can be used with other P<sup>2</sup> tools, such as LLCs. The projects below exemplify the variety of P<sup>2</sup> applications to produce long-term value and the importance of lifecycle analysis in understanding their structures and outcomes:

***The Yards at Southeast Federal Center.*** This mixed-used redevelopment of an aging federal property next to the historic Navy Yard in Washington, DC, used special-purpose legislation enacted in 2000 authorizing the GSA to enter into a public-private partnership. GSA chose Forest City Enterprises, Inc. (FCE), a major public real estate company, in 2004. The project, with an estimated build-out value of \$1.7 billion, will convert the Center and 42 acres of land by developing 1.8 million square feet of office space, 2,800 rental and condominium residential units, 300,000 square feet of retail space, and a 5.5-acre park on the Anacostia Riverfront. Adjacent to the new Nationals ballpark, it is the largest redevelopment project in DC. The initial opening for residential units, retail shops, and dining is expected in late 2009. It will generate substantial new tax revenues, provide new opportunities for local businesses, and use sustainable building design.

***Presidio Trust-Public Health Service Hospital.*** Presidio Trust is a federal government corporation chartered to use federal and private resources for rehabilitation of the Presidio of



San Francisco's historic buildings and infrastructure. The Trust may lease property, generate and retain revenue, and provide loans or loan guarantees to encourage private investment in the Presidio. In 2007, it granted a 70-year ground lease to FCE for converting a run-down former Marine hospital into 154 apartments, and building 7 new townhomes on a nearby street. The Trust will be responsible for managing and leasing all but one of the existing buildings within this "district." Total costs for the project will be allocated between the Trust (\$20.2 million) and the master tenant (\$71.8 million). Replacing a maintenance burden, the facility will be a self-sustaining contributor to the Trust's community and environmental program. The project is estimated to generate \$3.52 million in revenue to the Trust in 2010, the first "stabilized" year of project operation. Revenue generated by the district for the Trust over the 70-year lease term is expected to exceed \$666 million.

**Dulles Greenway Toll Road.** Dulles Greenway is a 14-mile, limited-access highway that extends from the state-owned Dulles Toll Road to carry traffic from the Washington, DC Capital Beltway to Leesburg, Virginia. The original partner on the project was Toll Road Investors Partnership II (TRIP II), which invested \$350 million (it was purchased by an Australian company in 2005 for \$617.5 million). It is operated by Autostrade International of Virginia O&M, Inc. and is regulated by the Virginia State Corporation Commission. Operational responsibilities return to the Commonwealth of Virginia after 42.5 years. In the meantime, the developers receive profits over a sufficient period to recover their investment. The Greenway was one of the first projects in the US to demonstrate concepts of project revenue financing and the first toll road in the DC metro area to have variably priced tolls. This project permitted private-sector financing and construction of a major new highway that would otherwise have been built many years later, if ever. It thereby opened adjacent areas to development and increased property values, facilitating growth without using taxpayer dollars.

**Bayside at Fort Howard.** In 2002, the VA inpatient care services at Fort Howard were consolidated to other campuses within the VA Maryland healthcare system. Pending local approvals, the vacated Fort Howard Campus will be converted to a veteran-focused retirement community under an EUL agreement. Restricted to residents aged 55 and over, the Bayside at Fort Howard Community may provide up to 1,300 residential units in a continuing care facility for veterans of varying abilities and incomes. Veterans are eligible for discounts on 40 percent of the units and will not pay entry fees. As part of the 65-year lease contract, the developer will build a new 10,000-square-foot outpatient clinic accessible to both veteran residents and eligible outsiders, with 10 acres reserved on site for a potential State Veterans Home. The community currently has a waiting list of more than 1,400 veterans. Other benefits to the VA include compliance with historic preservation requirements on the site and \$7.9 million in annual property maintenance cost savings that can be redirected to veteran healthcare. If successful, this unique project will serve as a model for other large VA campuses nationwide.

The VA has an extensive EUL program in which private partners create or achieve VA office collocations and other facility consolidations; energy facilities / utilities production / co-generation; skilled nursing facilities / assisted-care living centers; transitional or temporary housing; medical, research facilities, parking garages; child development centers / adult day-care facilities; and golf courses and other recreational facilities. The VA is continuing to pursue its EUL program, and has recently identified 47 potential VA sites with underutilized land and buildings for development.

These are a few among many existing P<sup>2</sup> programs and projects that are applying a "funding multiplier," thereby leveraging public assets to produce value for the taxpayer. They illustrate that agencies throughout government with large real property holdings have used P<sup>2</sup> tools to partner with the private sector in unlocking hidden asset values and providing value-added services.

## **Lifecycle Analysis**

For the full value of P<sup>2</sup> to be recognized, the lifetime costs and benefits of all major programs and projects should be evaluated in their earliest stages. A program's or project's economic life covers inception (typically, the initial construction, major renovation, or repositioning) through ongoing operations (including maintenance and repairs) to divestment. While individual capital projects capture most of the attention in the federal budgeting process, multi-project programs, such as RCI and Barracks, also should be assessed comprehensively on their full program lifecycle costs and benefits -- including synergies that may be produced when multiple P<sup>2</sup> tools (e.g., RCI, EUL, BRAC) are used in the same location. And because today's dollar is worth more than tomorrow's, the net present value should be quantified to illuminate tradeoffs between initial capital investment and ongoing operating costs.

For example, real estate developments and facilities obviously have costs that continue beyond construction and renovation. Operating expenses for utilities and property management are incurred; heating and cooling equipment, plumbing, and other mechanical systems must be maintained and repaired as needed; paint, carpet, and other finishes must be periodically reapplied; and all spaces need updating on a regular cycle to remain appealing in a competitive marketplace. The total costs of operating and maintaining a facility over its useful economic life (typically 30 to 50 years, but the range is from 20 to 60 or more) can be many times the initial costs of building or renovating it.

In contrast to the lifecycle view, the federal budgeting process compels agency attention on short-term spending and appropriations. Thus, when officials consider building or renovating facilities, they tend to focus on initial costs for demolition, construction, and start-up operations. Ongoing operations and future maintenance and repair costs usually are recorded and decided separately. Because the government's structure and processes for construction, operations, and maintenance are so complex, it is nearly impossible for government decision-makers to quickly forecast the full financial implications of programs and projects as their business counterparts can do more readily. Consequently, decisions are made with limited analysis, or staffs spend time and effort on customized analyses.

Moreover, ever-increasing pressures on government budgets can lead agencies to make trade-offs that favor immediate needs over best practices that will pay off over the long term. Funds earmarked for maintenance are "borrowed" to meet other funding requirements -- especially in the military where priorities for training, equipment, and operations usually trump facilities. But as repairs and maintenance are deferred year after year, conditions worsen and costs increase. The commitments are fragmented by time and circumstances. The Army's recent barracks incident at Fort Bragg has shown, among many issues, that it costs more to clean up the water damage from broken pipes than it does to check them each year and prevent or fix problems as they arise. In contrast, private developers with a predictable income stream and access to capital markets can commit to a program of scheduled maintenance and periodic renovation that protects asset quality, sustains value, and contains total lifecycle costs.

Lifecycle analysis first requires independent, parallel analyses for both private sector and government approaches, followed by a comparison of the results. Taking into account all of the inherent tradeoffs between short-term vs. long-term costs, and between business vs. government economics, can reveal the advantages of the private sector approach over government. Private partners can often deliver the product at lower initial costs due to superior efficiency, experience in building to current market standards, and access to sophisticated capital structures. However, they may also incur higher upfront costs -- for example, in energy-saving materials and equipment -- to achieve lower long-term costs for operating and maintenance. Because P<sup>2</sup> covenants generally include incentives to ensure that facilities are attractive to tenants, they are motivated to operate and maintain them effectively, leading to lower repair costs and greater sustainment of value over time.

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Some of the best opportunities to produce value arise when government functions cross organizational boundaries and political jurisdictions, involve substantial federal assistance, or use public property. These conditions impel consideration of new and different ways of developing and delivering services. One of the private sector's key contributions is the capacity to conceptualize, define, budget, finance, and partner on a portfolio of multiple asset classes, services, and geographies -- a skill set and attitude of mind that is very challenging to achieve within the conventional "silos" of government organizations. Yet when the government is open to the contributions of private partners, significant value can be produced for our military, other federal employees, and our citizenry.

## **PRINCIPLE TWO: P<sup>2</sup> SOLVES PROBLEMS**

*P<sup>2</sup>s solve complex, costly public problems in critical government functions such as housing, infrastructure, energy, and healthcare, with faster, cheaper, and better outcomes than government-driven programs.*

As pressure builds to cut federal budgets, and constituent populations grow larger, many seemingly intractable problems could be solved through cooperative partnerships with business. Tradition, culture, and politics may stand between change and the status quo, but the potential impact could be substantial. The sections below summarize two government functions -- infrastructure and military lodging -- where P<sup>2</sup> strategies are solving long-simmering problems, one -- military healthcare -- where the elements are in place to so, and one -- education -- where the Forum observed that P<sup>2</sup>s could have enormous impact though they have yet to be proven.

### **Infrastructure**

After decades of neglect and under-funding, US infrastructure -- roads, bridges, tunnels, airports and the air traffic control system, rail track, terminals, water and waste management -- needs to be recapitalized at annual costs that are tens of billions of dollars beyond currently available funding. With its access to capital and innovation, business is already helping state and local governments remedy their infrastructure problems. But a comprehensive federal infrastructure policy incorporating P<sup>2</sup> must be promptly developed and implemented.

The Forum focused on transportation infrastructure as a prime candidate for P<sup>2</sup> because the problem is so clear and urgent. Population growth, especially in urban areas, increases demand for transportation facilities and services. Taxes, tolls, and user fees have been the traditional methods for funding transportation, but are not keeping pace with the demand for construction, repair, maintenance, and operations. Current annual funding for transportation infrastructure is estimated at \$84 billion, while a bi-partisan study commission estimated the average capital investment needed for all modes of transportation is nearly three times that level (\$220 billion *annually* for 2008 through 2035).

The Highway Trust Fund is forecast to be \$14 billion in debt by the end of 2012. Requirements to modernize the air traffic control system may exceed current appropriations by \$1 billion per year over the next 20 years. Freight traffic is projected to grow substantially, with uncertain public sector capability to meet the needs of this growth. Taken together, the US transportation infrastructure truly falls in the "High Risk" category to which the GAO assigned it earlier this year.

Investment banks, private equity funds, and institutional investors -- well aware of these funding shortfalls -- have the resources to participate in recapitalizing the nation's infrastructure. Goldman Sachs estimates that US transportation assets alone have an enterprise value of \$300 to 400 billion. Infrastructure funds are forming to capitalize on the potential opportunity. US-based private equity funds have been established to invest in infrastructure projects here and overseas. From 2005 to 2007, the "infrastructure market" quadrupled, and in 2007, some \$31 billion flowed into these funds. In 2008, Morgan Stanley's infrastructure funds, totaling nearly \$10 billion, are investing in airports, roads, and other public-works projects around the world. To some extent, the credit crisis has diluted this enthusiasm, but the global thirst for capital and expertise is likely to continue the trend.

State, local, and foreign governments, especially the UK, have used private funding to bridge the gap between their infrastructure needs and resources. Since 1985, an estimated 2,000 governmental projects have been planned worth about \$887 billion in public-private funding. The US Department of Transportation reports that spending on road projects overseas tops spending in the US by 6 to 1. State and local governments in the US have begun to embrace private investment in infrastructure projects, often implementing legislative and regulatory changes to attract and maintain public-private partnerships. During 2005 and 2006 combined, state and local government partnership projects valued at more than \$54 billion were planned or funded.

One example of an integrated P<sup>2</sup> for transportation infrastructure is Puerto Rico's Tren Urbano. In 1996, the Puerto Rico Highway and Transportation Authority (PRHTA) partnered with Siemens Transportation Systems, Inc. to build and operate a 17-kilometer rapid rail line serving the growing San Juan metropolitan area, whose roadways had become extremely congested. Paid fare service began in 2005. Tren Urbano is a design-build demonstration project in the Federal Transportation Administration's program to evaluate turnkey delivery on a federally financed project. The system has 16 stations and 5,000 park-and-ride spaces, is closely integrated with the local bus system, and currently carries approximately 30,000 riders per day. Siemens supplied the overall control and communications systems, track, power distribution, vehicles, and five years of operations. The plan is to extend the rail system service

to other municipalities. PRHTA contributed approximately \$305 million of the project's \$2.2 billion cost.

The massive infrastructure challenge can only be solved through cooperation between government and business. It requires not only capital but also ingenuity and expertise. Government must create the conditions and rules of engagement and, in some cases, provide the "seed capital" or market base for the partnership to work. The demonstrated willingness of the private sector to participate, and the successes of other governments, show that P<sup>2</sup>s are the next frontier for transportation infrastructure.

## **Army Lodging**

After decades of insufficient capital investment and operating deficiencies, the Army's temporary lodging program (on-post facilities similar to motels) faces a revitalization backlog of more than \$1.6 billion, with over 80 percent of the current 19,000 room inventory in need of either replacement or major renovation to meet minimally acceptable standards. To solve this problem, Army lodging facilities are being recapitalized through Privatization of Army Lodging (PAL). The first PAL phase consists of some 4,500 rooms on 13 US posts.

On average, the current Army Lodging inventory is more than 30 years old. It is an eclectic assortment of buildings, most designed originally as barracks, family housing units, and even office space. Cinder-block walls, exterior corridors, linoleum floors, and geographically dispersed buildings are commonplace within Army Lodging -- a condition that is inconsistent with contemporary, mid-scale, limited-service hotels. For decades now, room rates have been kept at artificially low levels (i.e., rates that do not reflect the true cost of operations and capital utilization) in an effort to keep travel budgets down. As a result, the trend in facility conditions can best be described as an ever-accelerating downward spiral.

The Army designed an internal plan to clear the backlog and improve conditions. But leaders soon realized that it would take too long (20-plus years) and did not include long-term sustainment. Instead, the Army developed the PAL program, based on the MHPI authorities used by RCI. The PAL Office compared the privatization strategy to the same development scope and schedule of an Army-delivered program. Privatization showed 17 percent savings and cost avoidance. When appropriate adjustments were made for all operational expenses and recapitalization / sustainment needs, the government-managed scenario would result in charging 87 percent of the lodging per diem to eliminate the revitalization backlog. In contrast, the PAL program will achieve the same results at an average cost of 75 percent, creating an estimated annual cost avoidance of \$12 million or \$10 per room night.

Long-term sustainment is a major goal of the PAL program. Buildings that are renovated today will need to be replaced within the next 25 years. New facilities will need major renovation in about 40 years. By incorporating performance metrics in the PAL lease documents, the Army is assured of adequate sustainment and replacement, not just in the initial development period but throughout the 50-year lease term.

The Army is now implementing PAL as its primary transient housing portfolio strategy to ensure quality construction, renovation, operations, and long-term sustainment. The PAL program partner, Actus Lend Lease, is applying its capabilities in arranging capital and in overall program management. One of its main goals is to accomplish revitalization of the first phase in

the next five years. Actus has brought in the operator of InterContinental Hotels, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites, and other brands. Military travelers will for the first time have on post all of the facilities, reservation choices, amenities, and even frequent traveler points that have been available to the civilian traveling public for many years.

## **Military Healthcare**

DoD and VA administer two healthcare programs that together serve nearly 12 million people at a current cost of some \$80 billion, with costs growing at the rate of 7 to 8 percent annually. The programs' clients are bonded by a unique affinity for service and loyalty to the institutions. Adapting DoD's approach to the VA through a P<sup>2</sup> strategy could eliminate duplication, increase veterans' access to care, and reduce costs, while preserving the quality of service that is central to the VA's mission.

DoD's system has two main elements: direct medical care for active duty personnel who are injured or sickened in the battlespace, and coverage for roughly 7 million service members, their families, and retirees with at least 20 years of military service. In addition to owning healthcare facilities on military installations, DoD manages Tri-Care, a system built around private contracts for delivering medical benefits to individuals. Nationwide in scope, Tri-Care operates through health-benefits-administration contractors in three regions for active duty personnel, who have access to all of the nation's hospitals and pharmacies, and about one-third of its physicians. Beside its main objective to ensure excellent healthcare for beneficiaries, Tri-Care's chief concern is rising costs.

Tri-Care cut costs during the past decade by streamlining and simplifying its contracts with benefits administrators. It decreased its regions from seven to three; with one provider per region, this also reduced the number of contractors to three. Requirements for each region, which had been different, were standardized across the regions. Such simplification and streamlining cut administrative and solicitation costs, and created sufficient scale (\$2-3 billion per year in contract payments) to attract the best private partners. These ideas parallel the methods used to attract developers to RCI, and could be adapted elsewhere in the complex US healthcare market to control spending growth.

The VA, in contrast, is a government-owned and managed system providing healthcare to some 6 million non-active duty veterans of the nation's wars. It owns and operates a network of 170 hospitals and more than 1,000 clinics and employs its own doctors and other staff. The VA, too, is concerned with rising costs; convenient, quick patient access to services and facilities is also a critical priority.

The Forum concluded that one way to improve access for military veterans would be to create a system mirroring Tri-Care in the VA, with a private partner administering benefits delivery throughout the nation's non-military hospitals and clinics. Efficiency and effectiveness could be improved by consolidating the many VA hospitals into a smaller number of larger centers. As in the private sector, consolidation can be accomplished both geographically, by urban area and region, and functionally, through "centers of excellence" that focus on research and treatment of specific veteran-related conditions or needs. In some cases, well-managed local universities and other not-for-profit but business-like organizations could be effective P<sup>2</sup> partners. Savings, estimated in the range of \$2.5 billion over the next 10 years, would

approximate construction costs of the new centers for the first decade; thereafter, the net result would be positive for the government and taxpayers.

## Education

Concern about education quality is universal, and public pressure to raise standards, while increasing access, is mounting. Still, K-12 schools, universities, community colleges, and all but the best-endowed educational institutions find themselves without sufficient funds to build and renovate facilities, raise teacher salaries, purchase up-to-date textbooks and technology, and take other actions to recapitalize their infrastructure, increase quality, and admit more qualified students to their programs.

P<sup>2</sup>s have been employed at the local level with varying degrees of success. Urban school districts in Baltimore, New York, Philadelphia, and elsewhere have turned to private firms, which have applied rigorous management and business concepts (such as benchmarking, competitive analysis, accountability, and performance incentives), not only to "back office" administration like purchasing and facilities operations, but also to the complex, politically charged issues of teaching and learning. These initiatives have often resulted in significant cost savings and operating efficiencies, but only sporadic improvements in student performance.

The Forum observed, however, that the so-called "failures" have more to do with the execution of education P<sup>2</sup>s than with the concept. State and local school boards appear to have been insufficiently engaged in the initiatives, with the result that no clear definition of success has been established or agreed upon. And, expectations simply may have been too high. P<sup>2</sup>s that involve all stakeholders in creating consensus on the problem and developing methods to solve it would likely have greater success.

In the national interest, schools should be among the top candidates for P<sup>2</sup>. While education is largely a state and local responsibility, federal policies and actions influence education throughout the nation. As with DoD, the federal Department of Education can be a market-maker for P<sup>2</sup> and a sponsor of innovative initiatives. Unlike DoD, however, it does not have the authority for top-down, system-wide change management; nor, at present, do local communities appear ready to cede their authority. Still, the federal government can do much to create the standards and incentives for change -- from establishing criteria for partner selection to presenting strategies for P<sup>2</sup> recapitalization and operations to tying funding to private sector participation. DoD itself may become a test bed for education P<sup>2</sup>s, as its \$49 billion global school facilities portfolio -- like those in cities and towns throughout the nation -- needs renovation, rebuilding, and sustainment.

In this emerging government-business arena, which remains high-risk for both the school systems and the private firms, public purpose and profitability still await the necessary fusion and fine-tuning they have achieved in other sectors.

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By citing the above examples, the Forum intends only to highlight government assets and functions that are being, and could be, transformed from problems to advantages through P<sup>2</sup>. All will need careful study.

This report's first and second principles describe what P<sup>2</sup>s can do. The next two principles detail what government and business must do to create and sustain P<sup>2</sup>s.

## **PRINCIPLE THREE: P<sup>2</sup> OVERCOMES HURDLES**

*P<sup>2</sup>s overcome hurdles to encouraging broader business engagement in public problems through persistent, focused communications with key influencers, and through flexibility to meet unforeseen conditions.*

### **Hurdles to P<sup>2</sup>**

The widespread use of P<sup>2</sup> is hampered by political and cultural norms, legislative and budgeting processes, and key differences in the skills of government and business professionals.

#### *Politics and Culture*

Even when the status quo is clearly not delivering solutions, political opposition to partnerships can run high. Partisan ideology, concerns about equity, workforce issues, and other factors can limit the political will and mute the public mandate for change.

In addition, the cultures of both public agencies and private businesses can work against P<sup>2</sup>s. The federal government is a sizeable, complex, tradition-bound entity composed of disparate personalities, turfs, and territories, with a daunting array of responsibilities. Built slowly over two centuries, it can be a labyrinth of interconnected and often conflicting laws, regulations, and procedures that cannot easily be leapfrogged. For its part, business is often impatient with government "red-tape" and unwilling to partner despite large potential benefits. Business leaders express privately that regulations are too rigid or are unevenly and unfairly applied. The "Not Invented Here" syndrome operates in both spheres, but is magnified in the public sector, where officials can be distrustful of the profit motive, suspicious of contractors, and uncomfortable with alternative P<sup>2</sup> financing arrangements.

#### *Legislative and Budgeting Processes*

While enabling legislation is required to initiate a P<sup>2</sup> program, the machinery within the Congressional appropriations and authorization processes is equally important. Resistance to crossing jurisdictional boundaries can limit agencies and entrepreneurs in forging partnerships. Regulations promulgated by specific agencies may prevent or divert officials from originating P<sup>2</sup> programs. "Budget scoring" has proved to be a vexing hurdle blocking P<sup>2</sup> initiatives (discussed in *Perspective: Reforming Federal Budgetary Scoring*). Finally, decision-making and operations are fragmented in utilities and other functions regulated by federal, state, and local authorities, making it difficult to design, approve, and oversee partnerships.

#### *Skills*

Government employees' lack of familiarity with private finance can make working with business intimidating, resulting in government resistance to financial structures that are



common and effective in the private sector. Further, they may be unable to effectively evaluate their private partners' actions or advice. This can result in an automatic "no" even when the public benefits are significant. Similarly, the private sector's unfamiliarity with public financing requirements and processes can lead to unrealistic timetables and inattention to the government's many stakeholders.

## **Surmounting Hurdles**

P<sup>2</sup> hurdles may be numerous and difficult, but they can be overcome through persistent communication and flexibility in design and implementation, more than through any technical solution. Changing any culture is a challenging task -- changing the culture of an organization as large, ungainly, and tradition-bound as the federal government is Herculean. But it can be done.

### *Communication*

Provided the proposed P<sup>2</sup> is based on sound economics and meets a well-understood need where government alone cannot, most obstacles can be vanquished by clearly and persistently communicating the business case and garnering the support of key influencers.

RCI's communications plan was one of the most important, but least understood, factors driving the program's success. It changed the culture of the Army -- which had been averse to help from "outside the gate" -- through several modes of communication. RCI planners took senior Army officials on tours of master-planned communities to demonstrate the quality of life such developments could offer soldiers. They queried private developers about their concerns and requirements for participating in the program. They built the business case in conjunction with real estate experts, brought in to assist the Army in deal-making and also to help transfer skills to Army personnel. They developed a marketing plan, with core ideas and presentations designed to capture the magnitude of the Army housing problem as well as the potential benefits of P<sup>2</sup>s, and delivered these presentations repeatedly up and down the chain of command and to many different congressional offices. Through this rigorous communications effort, they managed to break down parochial boundaries that had effectively locked private management and assistance out of the Army housing function. Professional marketing forums were developed to interest developers in the program, deepen their knowledge of its economics and potential, raise their comfort level with the concept of working with the government, and persuade them to participate. As the program has progressed, Army personnel have received training in community development and financing concepts, creating a skill base that is crucial to the program's continuity.

Only a few influential champions are needed for a P<sup>2</sup> program to flourish. With RCI, once the key Army and Congressional supporters were identified, they carried the message throughout the Army and on Capitol Hill to consistently address issues and concerns. A bipartisan, non-ideological approach helped to build bridges among numerous constituencies who could easily have blocked RCI at the program and project levels. Thus, regular communication with Congress became essential in resisting the inevitable pressures to revert to old ways of doing business.

The US military is an inventive mixture of central planning and hierarchical organization combined with decentralized operations and local initiative. Some students of management

marvel, and others disbelieve, that change can occur at all within the exceedingly complex national security apparatus. But the military is a crucible of innovation in programs and processes as well as technology, and it has proven remarkably adept at developing and introducing new management concepts and methods. It demonstrates that government officials must have open minds for innovation and that proponents of change must have thoroughly formulated programs, not merely ideas, to capitalize on this open-mindedness.

### *Flexibility*

P<sup>2</sup> programs must be flexible. A one-size-fits-all system is likely to be met with more resistance and is unlikely to succeed compared with a program designed to suit local circumstances and inevitable social, economic, and technological changes. Today's marketplace moves so fast that it eclipses organizations relying on status quo strategies and rewards those that know how to capture trends, change course, and compete effectively.

The RCI P<sup>2</sup> program was initially codified as policy, structured and organized from the center; pilot projects were conceptualized, funded, and staffed with Army-wide resources; and execution for these pilots was driven from and closely monitored by the Army Secretariat through a newly-created special office and customized systems. The center provided the vision and core concepts to drive implementation; the installations and partners enlivened the concepts through the process of negotiation. As the initiative moved from experimental pilots and real-time field testing to a permanent mainstream program, execution increasingly devolved from the center to major commands and local installation management. In fact, the center, contrary to conventional wisdom, became a support staff to local commanders as they and the garrison staffs crafted the RCI plans. The private partners, especially in the first five years, had to be deft in discerning the real (vs. paper) authorities and deciding which battles over project scope and budget to fight and which to ignore or defer. Many of the program's best ideas emerged from the day-to-day process of negotiation and compromise to forge practical applications at each installation.

Recent events in DoD have shown that flexibility is the *sine qua non* of success when unforeseen circumstances override plans. The Army and Navy, operating similar P<sup>2</sup> programs, confronted shortcomings in the same partner. Both Services were able to change course, exit the relationship, find substitutes, and move on, without experiencing serious delays to their overall programs.

Flexibility is also inherent in an incremental approach to overcoming hurdles. Even minor changes to the status quo can meet strong resistance. Piloting, cited earlier, was a pragmatic response to overcoming resistance both within the Army and in Congress. The RCI pilot projects were chosen to test the program's assumptions and features in a variety of situations and at sufficient scale. Feasibility was demonstrated through small successes early in the process; the lessons were incorporated step by step; and the learning became both organic and systematic. As successes mount, fragmentation can be overcome, and a broader coalition of supporters can be built.

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While P<sup>2</sup>s harness much hard expertise, their success also depends on soft values of communications and flexibility. Even so, certain preconditions must exist for P<sup>2</sup>s to be developed and approved.

## **PRINCIPLE FOUR: P<sup>2</sup> NEEDS ENABLERS AND INCENTIVES**

*P<sup>2</sup>s require motivated agencies, enabling authorities, dynamic markets with able and willing private enterprises, incentives for all parties to participate, and methods of managing risk.*

Government must be *motivated* to consider business partnerships if they offer savings, speed and better service. For public officials and business executives to pursue P<sup>2</sup>s, *authorities* must enable agencies to develop programs that interest business. Whichever government function is at stake, open *markets* must foster strong firms that are capable of partnering to meet its needs. Finally, to attract businesses, government must offer *incentives* such as large scale, stable income, and potential profits commensurate with the *risks*.

### **Motivators**

Government must have potent reasons to look to the private sector for solutions. The motivator may begin either with a crisis that has captured public attention (poor housing) or a compelling opportunity to further the organization's mission ("green" buildings). The function or asset must be important enough to draw strong support for change. It must be broadly perceived as "broken" and incapable of being "fixed" through conventional practices. The P<sup>2</sup> initiative must hold out the promise that the problem will be fixed and that it will provide clear, quantifiable benefits in savings, speed, service, and quality over the life of the initiative.

*Savings* should be greater than the cost of change and calculated on a lifecycle basis for the program or project. In federal budgeting, avoidance of future costs may be as important as cost reductions, and slowing the projected rate of cost increases may be the only predictable outcome.

*Speed* should capture efficiencies and recover front-end costs. Because government programs must be budgeted up front (see Perspective: *Reforming Federal Budgetary Scoring*) and competition for funds is steep, they can take years to plan and fund before they are executed. P<sup>2</sup>s allow needs to be fulfilled sooner because the private partner's ability to raise funds is limited only by its marginal return on investment. It would have taken at least 20 years to bring Army family housing up to acceptable conditions and remedy the on-post housing shortfall under traditional programs, provided sufficient funding had been appropriated (deemed highly unlikely). In RCI, developers are recapitalizing on-post housing in approximately five years, and the program will cover improvements to all inadequate housing on US posts by early 2009.

*Service and quality* should be demonstrably greater than government can provide. A chief benefit of P<sup>2</sup> is that it allows the private sector to contribute its skills and expertise to functions that are not the core business of government. RCI emphasizes that housing, and the even more complex product of community development, are not core functions; they support the Army's core mission of warfighting. By tapping into the experience, ideas, and best practices of

private developers, the Army receives a better product, produced more rapidly and less expensively than it could do on its own.

In general, an agency's core mission should not be taken over by the private sector; the tests of constitutional responsibility and political legitimacy must be respected. Where functions are "inherently governmental," they should not be outsourced, and private employees should not replace government personnel. However, major shifts in circumstances can change the definition of inherently governmental and create opportunities for inserting P<sup>2</sup> principles, programs, and actions into the system. These can include:

- "Game-changing" shifts in a technology or market that make private involvement desirable or even necessary -- e.g., the rapid engagement of industry in shaping policies and practices for "green" buildings.
- Cost shifts that make providing a service too expensive for government alone, or less expensive if provided by the private sector -- e.g., the flow of private equity and enterprise into infrastructure.
- A "burning platform" -- that is, a clear realization that current practices are not sustainable and must be changed, such as costly cleanups on potentially valuable brownfield sites that cannot be redeveloped without remedial action.

A related shift can occur in the private sector's view of the government's mission and scope. Government agencies and private innovators may partner on endeavors that offer a clear public benefit but also entail more risk than private financing will support. For example, government facilities have long been provided for manufacturing activities deemed essential to the military industrial base, and they are now becoming proving grounds for alternative energy techniques developed by private companies using public funds.

## **Authorities**

One of the most difficult aspects of government for business people to learn when they enter the public arena is the "law" of authorization. Government departments and their executives must be specifically authorized by Congress, or empowered by an authorized official (e.g., a Cabinet Secretary), to act on, and sometimes even to explore, an issue. By contrast, leaders in the private sector consider issues with a wholly different mindset. They are taught and motivated to think first about the problem or opportunity, not the authority. They behave as entrepreneurs, identifying consumer needs, creating solutions, marshaling resources, and entering the marketplace. They operate within the law, of course, but their premise is that a legal route will usually be found for any good idea. In short, most day-to-day commerce is controlled by legislation that states what an entity "may not" do, while government action is limited by laws prescribing what it "may" do.

RCI was "enabled" -- or made possible -- by the MHPI, which specifically authorized DoD to invite private sector assistance, create an income stream through the soldier's Basic Allowance for Housing, and help mitigate military-specific risks for private developers. Without this, Army executives could not have instituted the necessary reforms or invited the real estate industry to participate. However, RCI was challenged at the start in finding ways to attract and select highly qualified developers, few of whom had ever worked with the federal government,

and all of whom expressed concerns about the limitations imposed by the Federal Acquisition Regulations (FAR). A well-established, voluminous body of precedent and practice, the FAR seemed a formidable obstacle to converting from the technical and legal bias of the Request for Proposal to a business and economic model based on performance and qualifications. Without reform, the industry's best firms would not participate. But new FAR authorities for this purpose were improbable. So with considerable drive and ingenuity, the RCI task force adapted the little-used Request for Qualifications process as its main procurement and competitive sourcing vehicle.

## Markets

For a P<sup>2</sup> initiative to succeed, there must be an established, competitive marketplace and active customer base where government can identify private firms with the necessary core competencies and skills. If necessary, the asset or function may be transferred to the private sector after the initial partnering. Competition depends on thriving, dynamic markets, and government depends on the competitors' interest. To attract private partners who have the capital and expertise for new P<sup>2</sup> projects and programs, the federal government will need to *create* a market, either by transferring control of assets and a funding stream, as in RCI, or by direct payments and tax credits. For its part, industry must be willing and able to take on a government partner with a defined need and a long-term view.

RCI and PAL exemplify this principle. They were based on the Army's demonstrable market knowledge of the size, structure, capacity, profit economics, and dynamics of the housing and lodging industries, combined with specific methods for applying the capabilities of market leaders in those industries to the unique challenges of financing, developing, and operating on military bases.

## Incentives

Business responds to incentives and new market opportunities. If government is considering a P<sup>2</sup> program, it must recognize and respect the private partners' requirement for profitability and ensure that it offers attractive, risk-adjusted returns. The P<sup>2</sup> opportunity must possess or allow for a dedicated revenue stream sufficient to cover operating expenses, provide for debt service and replacement of capital, and generate a return for investors. The BAH appropriated by Congress made RCI possible by establishing a predictable income stream (the same is true of the per diem travel allowance for PAL). Part of the MHPI legislation's genius was its recognition that this cash flow could be capitalized by the financial markets both for building and renovating military communities and for creating capital replacement accounts. Another breakthrough was reached when three prominent rating agencies agreed that the BAH was sufficiently predictable to warrant a high bond rating for RCI, thus allowing lower-cost, long-term bond financing for military housing projects.

P<sup>2</sup> projects must also offer appropriate scale to attract and sustain private participants. For example, RCI attracted developers in part because it offered the opportunity to rebuild or renovate 2,000 to 6,000 houses per post versus the few hundred customarily involved in military developments. Diseconomies and potentially detrimental impacts of scale must be addressed in P<sup>2</sup> structures and costs.

The income stream and scale must add up to profitability. The asset must be able to generate "market-rate" returns on investment, and the function or service must be able to generate sufficient operating margins and net profits. Moreover, the profitability must be visible, accessible, and commensurate with the risks. In RCI, the principle of market-rate returns, broadly communicated through industry forums and media, was a potent draw for market leaders who otherwise would not have considered the program.

## Risks

Finally, risks must be managed and balanced to encourage private sector participation. Government is predisposed to avoid risk. This concern permeates the oversight and budget scoring processes, and consumes considerable time and attention both in Congress and in the agencies.

In contrast, business views risk as a reality to be clearly identified, reduced and hedged where possible, and managed through both structure and processes. To participate in P<sup>2</sup>s, business must have assurance that government will put the health of the partnership above its reluctance to assume risk.

Government and business partners must decide together how to balance and manage the risks inherent in a project. Agreement on how risks are distributed is essential to a partnership: some risks will be shared; others will be the responsibility of one partner alone. However, it is to the benefit not only of the partnership, but also of the ultimate beneficiaries to include triggers for renegotiation when changing conditions threaten the financial health or operational capabilities of the risk-bearing partner. For the government to be successful in its goals, the partner must also be successful. No one gains from a failed project. Ensuring partner success also allows the government to attract the best-in-class partners required for a P<sup>2</sup> to flourish.

In RCI partnerships, *market risk* (occupancy, cost of inputs, credit) is borne by the private partner. The partner is responsible for building and operating housing that is appealing enough to produce high occupancy rates, as families are not required to live on post. If occupancy rates are reduced by major deployments, the Army allows the private partner to fill the housing with alternative residents (such as military retirees) to maintain the necessary income stream.

The business partner also bears the *financial risks* of rising interest rates and construction costs, weather delays, and the myriad other foreseeable and unforeseen cost increases that confront investors and developers in all large, complex projects. The CDMP allows for renegotiating scope when negative conditions threaten the partner's ability to survive. And the partner bears some risk that BAH will be lowered, or that soldiers will not pay their rent. While the government does not guarantee these payments, participants look to the history of BAH appropriations for assurance that the payments will keep pace with costs. As for rent payments, MHPI allows the Army to pay BAH to the developers directly (but it has not done so because this "obligation" would trigger a scoring requirement; see Perspectives: *Reforming Federal Budgetary Scoring*). The MHPI authorities also offer some protection against losses from base closures and extended redeployments; however, the better designed and built the communities are, the easier the homes can be sold or rented by civilians. Therefore, the developer has some control over the amount of risk created by the potential for base closure.

The developer also bears the *environmental risk*. However, when environmental problems are caused by the government (e.g., groundwater, mold), as often happens on military bases, then remediation is the government's responsibility.

The government's major risk is that the chosen partner will not perform satisfactorily. In RCI, this risk is managed through a carefully designed partner selection process, extensive reporting requirements, and contract provisions for severing the relationship in the case of default. The partnership structure itself minimizes *performance risk*, as it allows the partners to quickly and easily communicate and solve problems -- in fact, the speed and ease of decision-making is one of the partnership structure's chief benefits. As an example of both these aspects, the Army and Navy were able to promptly remove a partner because it failed to meet clear performance requirements -- the partnership structure permitted a negotiated solution. If the housing had been conveyed under a lease agreement, the contract provisions would likely have slowed the process.

\* \* \* \*

RCI exemplifies the enablers and incentives necessary for P<sup>2</sup>: legal authorities, a problem beyond government's capabilities, an efficient housing industry, and the incentives of scale, profitability, and risk management that combine to create an attractive program for business. RCI and other P<sup>2</sup> programs show the results in partnerships that transform costly, complex, inadequately performed functions to efficiently managed services and valuable assets with reduced burdens for the taxpayer.

## **PRINCIPLE FIVE: P<sup>2</sup> BUILDS AND SUSTAINS TRUST**

*P<sup>2</sup>s establish and sustain trust through shared goals, incentives, and safeguards; transparent working relationships; and life-of-partnership agreements.*

A partnership must be a winning proposition for all the participants, or it will not last. As such, it must be built in a spirit of trust and openness and supported with structures that provide equitability, transparency, oversight, and flexibility in the face of change. The process of building trust begins with the original procurement and extends through the arrangements for terminating the partnership. Through trust, the best ideas and capabilities of all participants surface and are applied for the public benefit.

Public sector managers are attuned to protecting the public trust. Private sector managers are skilled at creating and sustaining value. When the two team up as partners in developing and managing government property, there is natural tension. As the Army learned when designing RCI, some leading business executives consider the government an "unreliable client." They say privately that the government creates unnecessary bureaucratic formalities, does not understand or respect the profit motive, and even pays its bills slowly. Government employees, on the other hand, are understandably wary of business and financial concepts with which they are unfamiliar, fearing that private partners will disadvantage the government. Yet stewardship and profitability are complementary. From the procurement process through the partnership structure, a well-planned and designed project, built to last if it is a core asset and to

recycle if it is temporary, and a fully transparent relationship, create a virtuous circle of trust bolstered by the enthusiasm that results when both partners' objectives are met.

## Procurement

It may seem counterintuitive, but the best place to start building trust is during the procurement process. The approach that government uses to solicit and select private partners speaks volumes about its attitude toward private sector expertise and capabilities as well as its enthusiasm for collaborative working arrangements. RCI helped build trust among development partners through the open-ended RFQ solicitation and CDMP negotiation process.

### *Problems in RFPs*

As described earlier in *Army RCI: A P<sup>2</sup> For Military Housing*, agencies normally issue RFPs that detail both what to provide or produce and how to do so. The typical RFP for a large-scale project runs hundreds of pages. It specifies the required end product in detail. RFPs allow the agency to retain a high level of control over the project, but they have four main disadvantages: 1) they take months or years of agency effort to produce; 2) they impose substantial costs on the prospective partner with no assurance of success; 3) they discourage respondents from challenging the government's specifications and bringing creativity or expertise to the problem; and 4) they deter prospective partners who have capabilities and resources to solve public problems but are not skilled at responding to RFPs.

As such, RFPs foster contracts, not partnerships. In a contract, the chosen business may not feel incentivized to bring its best ideas to the table, and depending on the contracting officer, the relationship may feel adversarial from the start. In addition, the selection team using an RFP may be bound to choose the lowest bid rather than the "best value" -- a complex measure that includes long-term returns on upfront investments in product quality and "soft" outcomes such as customer satisfaction. Not only can "low-ball" selections compromise quality, they can also lead to higher total costs, as contractors make up inadequate revenue by requesting expensive change orders throughout the project.

### *Solutions in RFQs*

In contrast, more open-ended, value-oriented procurement methods can instill the spirit of trust and partnership from the beginning, as well as ensure that agencies choose partners who understand, respect, and can fulfill government goals. RCI adapted the RFQ with considerable success. The RFQ asks prospective partners to document their experience in large-scale community development, their track record of performance in such projects, their ability to finance the project, and their broad vision for the on-post community. In contrast to the RFP, the RFQ document is relatively brief (30-100 pages) and straightforward. By asking for their vision rather than telling developers what they should build, an atmosphere of respect and trust is created from the beginning. The financial deal can be worked out during master planning, leading to shared responsibility and more predictable costs for the government.

In the RFQ process, a promising partner is selected; in conjunction with the Army post, that partner is then called upon to bring its ideas and expertise to bear in comprehensive planning, financing, and execution of all aspects of the final RCI community -- from land use to neighborhood layouts to community amenities to housing design. Not until the CDMP is



approved does the partner take possession of the existing housing, receive the BAH income stream, and begin construction. The CDMP negotiating process and its use in the marketing campaign were critical to RCI's success. A major departure from conventional practice, it conveyed a strong signal that the Army was ready, willing, and able to reform its approach to partnering. And this, in turn, attracted and in some ways transformed the outstanding private sector partners who were selected.

## **Structure**

In a partnership -- whether an LLC or some other legal form -- terms must carefully define how the business relationship will work, what contribution will be required from both parties, how performance will be measured and monitored, and how the partnership will be sustained over the long term. Taken together, these define how trust will be built and maintained.

### *Contribution*

The partners must agree how private capital should leverage public investment in both the short and long term. When a problem needs to be fixed quickly, more private capital may be required due to budgeting and appropriations constraints or capital market limits on credit. To meet such contingencies, the risk / reward allocation cited earlier needs to be sensitively constructed. If the private partner must shoulder the entire burden of a quick additional capital infusion, the public partner must be willing to adjust its risk / reward allocation. When a partnership is intended mainly to ensure long-term sustainment and recapitalization for a function, leverage is less critical and the allocation formula should reflect this.

### *Monitoring*

Monitoring partners' performance takes on new meaning when transparency drives the relationship. Openness without information in a business relationship will not produce results. To enable effective monitoring, the partnership terms must specify the measures, timing, and procedures for performance monitoring; the remedies that will be available to each of the partners in the event that key benchmarks are not achieved; and the approach to resolving disputes. Performance measurement techniques and approaches are built into RCI, EUL, PAL, and other P<sup>2</sup> programs. The deeper challenge is to adjust incentive systems to reflect both capital and operating performance measures.

### *Longevity*

The partnership must be designed to ensure that the relationship can endure for the length of the project -- or that an exit will be gracefully managed -- both to protect the long-term quality and viability of the asset or function and to establish the process for change in response to economic, social, and technological trends. Provisions in the agreements that build in longevity include timetables, performance-based payment provisions and incentives, and options for replacing partners if agreed-upon benchmarks are not met. The typical RCI agreement is 50 years -- a long time to assume the original partners will remain in place. The developers are charged with active asset management during the life of the partnership and for monitoring the quality of the housing portfolio (from both a financial and service-delivery perspective). Property managers are accountable for most day-to-day operations and are more

likely to change during the partnership's life. However, the recognition that companies are bought and sold, management responsibilities change, and unforeseen conditions occur requires that smart, solid commercial terms be incorporated into all agreements.

That said, when a government agency maintains control of the land (as in RCI and related projects), it must provide for exit strategies when the lease terms end -- often far in the future. Enhancement of public property can be achieved by the P<sup>2</sup> itself, as in EUL projects where developers and users produce value on fallow land. But DoD is currently dealing with fallout from expiring projects whose exit plans are no longer feasible. Some agreements require returning the land to "pristine condition" -- which may have seemed sound 20 or 30 years ago, but cannot be accomplished today at a reasonable cost. Both parties in the partnership must be willing to periodically review exit strategies and redefine them as appropriate to fit market and economic conditions.

## **Transparency**

Transparency is the basis of trust. It is also the best form of regulation. The controls that Congress and the Office of Management and Budget (OMB) have placed on partnerships stem partly from distrust of the private sector and fear of "fraud, waste, and abuse" that periodically arises in government contracts. But wise managers have long known that the best way to prevent abuse is full transparency. The more complex the organization and system and the more compartmentalized its operations, the more likely it is for fraudulent operators to succeed. President Reagan's exhortation about nuclear weapons, "Trust, but verify," applies to government-business relationships as well. Investigating fraud after it has been discovered is expensive and ineffective. But opening the books to the partners, with appropriate protections for proprietary business data, enforces peer standards and provides early warnings of miscreants so they can be rooted out before they act.

Many states allow "closed" LLC structures which cloud or entirely hide the true ownership and activities of the company. In real estate, this is especially problematic because the underlying ownership is a key factor in due diligence and evaluation of prospective deals. Within these protective shells, frequent transactions and "asset flipping," hidden from public and market view, have helped drive the recent housing price spikes and consequent meltdown.

By contrast, under RCI and other P<sup>2</sup>s, the LLC is a transparent, "open-book" structure where the ownership, officers, and major activities are reported and both partners have access (protected by mutual confidentiality provisions) to the relevant data about each other's commitments and operations. However, clarity and depth still depend on the quality of the partnership relationship, mutually agreed metrics, other key intelligence, and, for many complex issues, expert advice. Where public data is not as accurate or available as the private partner would like, the partners must communicate closely and frequently to avoid erosion of trust and damage to the relationship. Transparency begins with the negotiation of partnership agreements and continues through regular contact (in both face-to-face meetings and formal reporting) to ensure all parties work effectively together in achieving the partnership's mission.

## **Stewardship**

When a P<sup>2</sup> is launched, the government agency cedes at least some control of that function to the private partner. Nevertheless, the public may continue to view the function as a

government responsibility and be concerned about its long-term health or operation. For example, in a public-private toll road project, what recourse will the government have if the partner stops maintaining the road? Can the partner raise tolls indiscriminately? When a soldier leases a house that is renovated or built by a private developer on public land, can the partner differentiate the rents as it would in the private market?

Because government agencies answer to legislators and taxpayers, they devise oversight structures that protect public resources and "the public interest." The challenge is to provide the kind and amount of oversight that keeps a program within the bounds of legislation and stewardship without reverting to the contracting and control model in effect before P<sup>2</sup>. Additionally, the structure must incorporate market-based commercial terms and features to be competitive in the private financing community.

Stewardship is a more effective principle for P<sup>2</sup>s than oversight. It is based on long-term commitments to the vision, shared values, and attention to program execution. In RCI, for example, ensuring that the program objectives are achieved and sustained does not end with the transaction closing. At that point, policy and program oversight must be executed for the project within the entire RCI portfolio. JLL, in its role as the Army's real estate consultant, developed a Portfolio Asset Management (PAM) program to provide long-term oversight of RCI. This program is tailored specifically to the nuances of the public-private relationship, recognizing that while the private sector's ultimate success measurements are return on investment and risk mitigation, the goals of a P<sup>2</sup> program are more subjective, including improved quality of life for military families. Such tools to monitor and measure performance are similar in both the public and private sectors. RCI has adapted and created performance metrics and standards as well as measurement and evaluation techniques to ensure the Army has accurate and relevant information to use in major portfolio decisions. Programs like PAM are one of the most important aspects of an effective P<sup>2</sup>.

RCI also utilized an Integrated Process Team (IPT) that coordinated policy and decision-making during the early years of the initiative. The IPT provided a structure through which to identify, sequence, and resolve issues on a timely basis. Like a "board of directors," it solved basic program issues but did not micromanage developer selection or contracts. An "issue analysis" methodology ensured complete, consistent staff work on the full range of policy, program, and budget decisions RCI faced. Its nine members, including five four-star officials, were drawn from functions and departments across the Army; their buy-in was necessary to move RCI forward. The success of the IPT depended on two ground rules: the members were required to attend meetings (they could not send surrogates) and their decisions were final (not subject to additional oversight). Combining a long-term view, a belief in the public trust, and superb staff work, the IPT's ongoing stewardship supported RCI during its development and launch.

To be successful, members of such a team must understand its limits and their own roles. To some government officials, the term "board of directors" has little meaning, so training for members may be necessary. Government needs more capable managers who can perform effective stewardship roles. More than government contract officers, these are true relationship managers who understand business principles and techniques and can negotiate as equals with their business counterparts.

A senior career government official with deep experience in P<sup>2</sup> programs puts it this way: "In the pure privatization model, profit is the incentive. So the first rule of privatization is that profit is not only acceptable but fundamental. I think we hid from this in the early days, and Congress also resisted it. None of our privatization is pure, so we include both incentives and controls to protect the public interest. In the context of housing LLCs and leases, we build in incentive fees for construction, property management, and customer satisfaction. And we exercise control by defining major decisions which require our agreement even though we are limited partners. I think this works well although it raises the scoring question. As the government partner, we are protecting the public interest, but if we do it primarily through controls, versus incentives, we risk being considered overly governmental. But we also take advantage of public sentiment. In 2008, companies enjoy being in the business of helping Service families, in a way that would not have been true in 1998. They do proactive projects, like memorial walks and gardens, and use them in their PR. Privatization opportunities can often capitalize on such circumstances."

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These principles reflect the premise that in our system of democratic capitalism, business has a central role in society, not just in the economy; that people, as consumers, are the province of business, much as they are constituents of government; and that profit is an essential but not the sole measure of business performance. The progress of P<sup>2</sup> during the last decade clearly suggests the promise of a more vigorous, comprehensive federal policy that extends the roles of the private sector into areas of public need while strengthening the effectiveness of public agencies through many and varied mechanisms to harness the private sector's ingenuity and resources. Taken together, these principles form the blueprint for a P<sup>2</sup> philosophy that can help business partner with government to fulfill public needs while protecting the public interest.

## PROPOSALS

The foregoing principles are about reforms in the ways government works. The following proposals are about initiatives to achieve these reforms.

The Forum was convened for a non-partisan dialogue on how P<sup>2</sup>s could help policymakers address issues of national importance and concern. Participants avoided specific partisan positions and agreed to present this report to both Presidential candidates and their advisors while their policies are being formulated.

In Presidential elections, there is a tradition of pronouncements on numerous policy issues, some with immediate impact but most with longer-term consequences. In the 2008 election, myriad issues concern the electorate, dominate the airwaves, and vie for candidates' creativity in forging fresh proposals. Several issues are "first-tier" -- jobs, energy, healthcare, war -- because they are on nearly everyone's mind. "Second-tier" issues -- infrastructure, education, globalization, social security -- may have less daily visibility but arguably are no less important to the nation. We believe P<sup>2</sup> can contribute on this second tier, and should receive due attention in the new Administration.

This Forum concentrated on initiatives that would have impact on national priorities through the P<sup>2</sup> principles defined above. The participants, all experts in their respective domains, involved in P<sup>2</sup>s, and familiar with the relevant research, relied mainly on their experience and judgment in framing the following proposals. Three of these proposals could be implemented immediately through executive orders; two could be launched in the first two years of the Presidential term. All five would have lasting consequence for improving the federal government's effectiveness and efficiency in meeting the demands of the 21st century. They do not supersede existing public-private partnership mechanisms; rather, they provide structure for expanding P<sup>2</sup> policies with an Administration mandate.

### ENDORSE THE P<sup>2</sup> PHILOSOPHY

*Endorse public-private partnerships as part of the Administration's philosophy for reform, by promoting wider reliance on business partners and proven approaches to producing economic value and solving public problems.*

The focus and pronouncements of the Executive Office of the President can infuse agencies with the sense of purpose and urgency that are required for bold action. During President Clinton's first term, the Marsh Panel addressed the poor state of military housing, and its deliberations, supported by expert staff work in DoD, helped in promoting passage of the MHPI authorities. In Clinton's second term, Administration leadership created RCI. President Bush's "Management Agenda" repeatedly stressed the importance of further improvements to military housing, and RCI was consequently strengthened and accelerated.

The size, scope, and complexity of 21st century problems dwarf the capabilities of institutions and programs invented in the 20th. In recent years, a broad, bi-partisan consensus has emerged that deep reforms are required in the structures and processes of government.

Signs of transformation are sporadic but significant: national action to restructure entitlement systems, especially healthcare and social security; sweeping changes in the regulations and roles of financial institutions; calls for a long-term federal capital budget and a new National Security Act; acknowledgment by the Secretary of Defense that DoD might relinquish a portion of its sizable budget to other agencies; and rapidly increasing interest in partnerships. P<sup>2</sup>s can be a lever for these reforms.

Accordingly, the next President's endorsement of P<sup>2</sup> in fulfilling a range of needs, both in the military and in the broader public arena, can have similar effect. Through words and deeds, the new Administration should actively encourage collaboration with the private sector. The Administration should signal support of government-wide, interagency initiatives to extend and apply the principles and practices of P<sup>2</sup> -- beginning with six major functions: housing, buildings, infrastructure, transportation, education / training, and healthcare (see *P<sup>2</sup> Candidates - Preliminary List*). The Commission and Office proposed below should examine these, and look across the spectrum of all government functions where the private sector already has competitive market structures and capabilities. Sustaining P<sup>2</sup> over time will require an approach that is rooted in a core philosophy of business's role in government, and is non-partisan and pragmatic.

## **APPOINT A P<sup>2</sup> COMMISSION**

*Appoint a commission on public-private partnerships to raise awareness of P<sup>2</sup>, identify and prioritize high-value opportunities, define the rationale for action, and galvanize support.*

For reasons cited above, partnerships must be positioned on a broader, government-wide platform to achieve the potential benefits shown in RCI and other P<sup>2</sup> programs. Presidential commissions are a proven vehicle for raising the awareness of policymakers and the public about an issue or new policy direction, assembling a fact base, establishing a rationale for action, and galvanizing opinion leaders around the new direction. In the past century, eleven such bodies have been appointed for periods of several months to years. Five commissions are notable for their purpose, scope, and sponsorship, with issues ranging from sweeping changes in the executive branch under Roosevelt, to detailed administrative reforms under Truman and Eisenhower, to an investigation of "waste and inefficiency" under Reagan, to "reinventing government" (also known as the National Performance Review) under Clinton, to caring for wounded soldiers under Bush. In all these cases, business leaders were engaged and business methods were recommended. However, only one commission specifically focused on public-private partnerships as a core concept. The National Performance Review stated this goal: "We will use federal powers to structure private markets in ways that solve problems and meet citizens' needs -- such as for job training or safe workplaces -- without funding more and bigger public bureaucracies."

Wars have often brought out the worst in business practices as well as the best, and this has been no less true in Iraq. The focus on waste and fraud, while vital, overlooks the wide array of facilities and services provided efficiently by businesses in theater that both commanders and soldiers value highly, as well as the many innovations that the private sector routinely develops to meet special needs in every war. The widely reported excesses in the past four years are not due to the private sector's performing support functions it should not

perform; they result from weak oversight, shoddy procurement practices, poor or non-existent internal controls, non-transparent dealings, and other shortcomings. As we posit above, the P<sup>2</sup> model -- a tool for economic growth and problem-solving, not an end in itself -- reflects the reverse of these negatives: integrity and trust-building; strong, well-informed oversight; open-book relationships; robust, performance-based metrics; and the other hallmarks of best business practices. Still, a P<sup>2</sup> Commission would of necessity address not only opportunities to apply P<sup>2</sup> solutions, but also the changing roles of the public and private sectors in government, the methods to prevent abuses, and the sanctions for those responsible for fraud and waste. Skilled direction will be required to satisfy the need to evaluate the past as well as produce forward-looking proposals.

A P<sup>2</sup> Commission in the next Administration would have five objectives:

1. Refine the P<sup>2</sup> principles.
2. Research current P<sup>2</sup> projects for their business models, lessons, and key success factors.
3. Identify the major opportunities for P<sup>2</sup> -- based on an analysis of needs, options and feasibility -- across the full range of federal functions; for each opportunity, establish clear objectives and guidelines to produce value while protecting the public interest.
4. Develop legislative proposals as required to facilitate program objectives.
5. Recommend specific opportunities and courses of action to execute the new authorities.

The Commission would be tasked to report its progress within three months of inception, and to issue its final recommendations within one year.

## **ESTABLISH A P<sup>2</sup> OFFICE**

*Establish an office of public-private partnerships to convert the commission's findings into agency actions, foster interagency alliances, and encourage P<sup>2</sup> program implementation through communications and public relations campaigns.*

Periodically, issues are important enough to warrant Presidential attention and influence, but they do not fit within the Cabinet and agency structure. One effective route is to establish a lean, high-level office that operates with the President's personal imprimatur. In conjunction with OMB and the Federal Real Property Council, a new Office of Public-Private Partnerships would make the case for the public-private nexus as an engine of social and institutional change as well as economic progress.

The next President will inherit vast administrative machinery for developing policy and driving execution. The Executive Branch, with its 15 Cabinet-level departments and 65 independent agencies, covers the full range of federal functions with more than 4 million civilian and military employees and thousands of contractors. As each Administration finds anew,

quickly and efficiently establishing influence and wresting control in this maze is extremely challenging. One built-in organization, the OMB -- with its analytical focus and large professional staff -- is uniquely well-equipped to help, but it can display the same inflexibility that bedevils all bureaucracies over time and can impede the executives' ability to achieve desired change.

An Office of Public-Private Partnerships would operate with the agility of business on an interagency basis for the life of the Administration. It would seek areas of national need that are suitable for the types of cross-functional solutions and cultural transformation that business firms, supported by the capital markets, are especially qualified to provide. And, using the President's "bully pulpit," it would emphasize the prospective roles of business in partnering with government to meet public needs. The Office's functions would be to:

1. Embrace extension of the Commission's findings as they emerge and offer guidance to achieve cross-agency acceptance, programming, and roll-outs.
2. Identify "centers of entrepreneurial skill" within all federal agencies that could identify new P<sup>2</sup> ideas, analyze them quickly, and implement them selectively through existing agencies and programs.
3. Broker alliances between federal organizations and businesses to pursue issues, set up pilots, and define scalable opportunities.
4. Promote the P<sup>2</sup> concept through public relations and media campaigns.

## **INSTITUTIONALIZE EXISTING P<sup>2</sup> PROJECTS**

*Institutionalize existing P<sup>2</sup> programs in DoD, VA, GSA, and other agencies by removing regulatory and procedural hurdles and ensuring adequate funding for the government's contribution.*

Throughout the DoD and Military Services, the VA, and the GSA, demonstration and pilot projects are underway to bring P<sup>2</sup> principles to bear on many assets and functions that contribute to Service members' quality of life, to recapitalize aging facilities and infrastructure, and to produce value from non-essential or underutilized government property. P<sup>2</sup> initiatives, with their "viral," self-generating characteristics, can overcome the rigidities of embedded programs that are difficult to change. RCI was designed to be self-generating -- that is, seeded by overall program objectives and incentives; structured to operate in local, site-specific, collaborative partnerships; but flexible for each military-business development team to adapt as new findings and unforeseen conditions arise.

Master planning and coordination will be essential in providing services and facilities through government agencies and private businesses. Where BRAC is being implemented and where military bases are the mainstay of the local economy, federal, state, and local governments -- as well as regional authorities -- must come together with private partners to ensure a sensible and sustainable long-term plan for the area, with access to long-term capital and relevant skills. Stovepipes in decision-making could block such coordination; prompt action on structure, processes and statues may be required to eliminate them.



Several programs merit full program status and funding to extend their benefits beyond the pilot stage. They include:

*Army Lodging.* The PAL program is on track to revitalize the Army's on-post temporary lodging throughout the US through a P<sup>2</sup> initiative. This program should be extended and funded to cover the full lodging inventory to completion.

*Army Barracks.* The current P<sup>2</sup> pilot projects to build new barracks for senior non-commissioned officers should be extended to provide new or upgraded housing for all single soldiers. (See Perspective: *The Potential in Barracks.*)

*Military Retail.* In Fort Belvoir's breakthrough RCI retail project, the partner joined with AAFES to integrate brand shopping with family housing, while preserving the soldiers' Morale, Welfare, and Recreation benefit stream. This and similar models should be replicated throughout the military installation system.

*VA / DoD Military Healthcare.* DoD's Tri-Care program, which partners with hospitals and providers nationwide, should be mirrored in the VA; and the VA should complement this strategy by consolidating its hospital-clinic system into a smaller number of larger centers, with outreach through existing provider networks, to improve its efficiency and effectiveness.

*"Whole Base P<sup>2</sup>."* Whole base P<sup>2</sup>s, conceptualized but not yet widely executed, should be fully explored. In these, the military would partner with "master" installation developer-managers, similar in scope and skills to the RCI partners, which would develop and manage entire installations. They in turn would "sub-partner" individual elements such as retail, healthcare, storage, and energy to industry leaders in those specialties.

## **EXTEND P<sup>2</sup> MODEL TO OTHER GOVERNMENT FUNCTIONS**

*Extend the Forum's P<sup>2</sup> model to other major federal functions -- e.g., housing, buildings, infrastructure, transportation, education / training, and healthcare; and explore other potentially high-value areas.*

The following chart, *P<sup>2</sup> Candidates -- Preliminary List*, displays the Forum's proposed set of additional functions and property types that could benefit from a specific P<sup>2</sup> strategy, and the categories of benefits it could produce. The functions and uses include *housing* (non-military, government-supported), *buildings* (office, warehouse, industrial, laboratories), *infrastructure* (electricity, water, wastewater, natural gas, telecommunications), *transportation* (roads, bridges / tunnels, rail, air, waterways), *education / training* (child care, technical / vocational training, college-level / post-graduate), and *healthcare* (hospitals / clinics, programs / services, research facilities). The benefits categories include reductions in backlogs for maintenance and renovation, cost and time savings, increased asset development or redevelopment value, and reutilization of public lands and buildings. At this stage, the chart provides a framework for future analysis of promising opportunities by the proposed P<sup>2</sup> Office.

**P<sup>2</sup> CANDIDATES -- PRELIMINARY LIST**  
**Future Analysis May Suggest Opportunities for P<sup>2</sup>**

Government Functions / Property Types	Military	Civic	Condition (Scale)	\$ Capital Investment Required	\$ Asset Value		\$ Services Costs		\$ Value Improvements			
					Land	Structures	Opns.	Maint.	\$ Backlog	\$ Savings	\$ Devel	\$ Reuse
<b>HOUSING</b>												
Family	x	?										
Single – Senior	x	?										
Single – Junior	x	?										
<b>BUILDINGS</b>												
Office	x	x										
Warehouse	x	x										
Industrial	x	x										
Laboratory	x	x										
<b>INFRASTRUCTURE</b>												
Electricity	x	?										
Water	x	?										
Wastewater	x	?										
Natural Gas	x	?										
Telecommunications	x	?										
<b>TRANSPORTATION</b>												
Roads	?	x										
Bridges/Tunnels	?	x										
Rail	?	x										
Air	?	x										
Waterways	?	x										
<b>EDUCATION/TRAINING</b>												
Child care	x	x										
Technical/Vocational training	x	x										
College-level/Post graduate	x	x										
<b>HEALTHCARE</b>												
Research	x	x										
Hospitals/Clinics	x	x										
Programs/Services	x	x										

The federal government's property portfolio is over \$1.5 trillion in replacement value. With such vast scale and scope, it is imperative that the government combine effective oversight of many owners and occupants with creativity in managing the assets. The corporate analogue is a senior real estate executive office with global portfolio responsibility, performance-based metrics, an integral role in corporate strategy, and incentives to continually improve asset utilization. By extending partnership programs, enlarging the P<sup>2</sup> toolkit, and strengthening the GSA's role in implementation, the federal government should be able to emulate these best business practices. The Commission and Office proposed above would help to create a government-wide mandate and platform for P<sup>2</sup>. Individual P<sup>2</sup> agencies would be challenged to employ P<sup>2</sup>s wherever possible within their missions.

As an indicator of the potential benefits from a proactive P<sup>2</sup> strategy, the Forum's Army barracks analysis (see *Perspective: The Potential in Barracks*) showed, in that function alone, upwards of \$5 billion in potential lifecycle net present value advantage to the federal government compared with the conventional approach. Through P<sup>2</sup>s, the avoidance of government costs for construction and operations that eventually reach many billions more would be a powerful advantage when applied to the full range of candidate functions. One of the new Administration's first priorities should be to apply similar reasoning and analysis to selected categories of federal property, such as those listed above, and to size the opportunities

for a stream of benefits to the various stakeholders and value improvements to the assets. The Forum's preliminary observation is that the additional opportunities could run to hundreds of billions of dollars -- a finding that is compatible with asset re-structuring and operations improvements in global corporations with complex portfolios where focused strategies have yielded compelling results.

Despite the magnitude of possible savings and improvements, the stewards of federal property and policymakers for the many public services represented in these functions are understandably concerned about the potential for abuse and excess when private interests pursue public purposes. Yet the proven successes of RCI and other P<sup>2</sup> programs to date are too promising to ignore. Based on its review and the principles discussed earlier, the Forum believes that rigorous evaluation and selection of programs and projects should yield important opportunities to improve government services while reducing costs. The P<sup>2</sup> candidate functions will have to be carefully assessed on their risks and rewards for all parties. And lessons from both successes and failures should be incorporated in the ongoing program design.

\* \* \* \*

## CONCLUDING NOTE

P<sup>2</sup> is a tool for harnessing and directing the creative capabilities of business to achieve public goals. RCI and similar P<sup>2</sup> programs prove that government and business can partner to achieve results that neither can achieve alone.

But success is not automatic. To lessen risk and sustain viability, government has a crucial role to play in every phase of a P<sup>2</sup> program -- providing leadership from initial program conceptualization and implementation, through ongoing oversight and monitoring, to final program dissolution. At each stage, government must engage proactively to ensure that the public interest is served. Competition, accountability, and transparency are key words in defining the government's concerns, but it must also be a proactive, contributing partner in the strategy and problem-solving.

The business partner has an equally important role as a capable and reliable partner in a joint public-private enterprise, contributing its expertise in understanding customer needs, skills in product design, and systems for large-scale program and project management. Its entrepreneurship and capital prowess complement government resources to improve efficiency and effectiveness while fulfilling community objectives.

P<sup>2</sup> often invites, but generally defies, "conservative" and "liberal" characterizations. RCI and its enabling legislation were launched during the Clinton Administration and accelerated during the Bush Administration. Ultimately, RCI became a bi-partisan program and enjoys broad support today.

The Forum's philosophy of P<sup>2</sup>s as partnerships hinges more on the nature of the relationship than its legal or organizational form. Much as we now respect "partners" without formal contracts in many areas of our business and personal lives, so we should respect all forms of partnership between business and government, including strategic alliances, joint ventures, and others. This directly contrasts with "contracting-out" or "outsourcing" or "divesting" government responsibilities and functions, any of which may be effective but are not long-term strategies where the joint capabilities of business and government are essential.

P<sup>2</sup> is a model for selected government functions. It will not apply universally, but it has the characteristics of a movement, reflecting discontent with current government solutions to public problems and recognizing that private enterprise has substantial capabilities to help government carry out its inherent responsibilities and leverage its resources for public benefit. P<sup>2</sup> models demonstrate new forms of governance that, while rooted in our legal and economic systems, profoundly alter the boundaries between government and business.

The principles and proposals in this report are inherently controversial. We present them to help frame debate and shape public policy as well as promote new thinking about business initiatives. We recognize that policy, like politics, is the art of the possible, but we have seen views of what is possible change. Specifics aside, we should welcome a new, robust concept of the government-business relationship. The promise of public-private partnership is the promise of democratic capitalism itself -- the fusion of public purpose and private enterprise, sharing resources of money, talent, and property for community benefit, and rewarding those who put in the effort and take the risks.

## **PERSPECTIVE: REFORMING FEDERAL BUDGETARY SCORING**

Through the federal budget system, the President proposes and Congress approves how much money to spend, what to spend it on, and how to raise it. Congress has enacted several laws, including the Budget Enforcement Act of 1990, to make sure government agencies do not spend or obligate more than Congress has appropriated, as required by the Constitution. The Antideficiency Act prohibits agencies from spending or obligating the government to spend before Congress appropriates the funding, unless specific authority to do so has been provided in law. These and other laws, including the Congressional Budget Act of 1974 and the Gramm-Rudman-Hollings Balanced Budget Act, have led to the process of budget scorekeeping, commonly known as "scoring."

Scoring allows the federal government to measure the budget effects of its actions. Scoring guidelines are used by the House and Senate budget committees, the Congressional Budget Office, and the Office of Management and Budget (the "scorekeepers") to ensure that the government measures the effects of all federal spending and revenues consistently.

Scoring guidelines for capital asset acquisitions (delineated in OMB Circular A-11) require agencies to account for the value of long-term projects or obligations in the year they are committed. When the government builds or purchases a capital asset, such as a building or land, the total cost of the asset is scored in the first year. Under current scoring interpretations, when an agency enters into a lease-purchase or capital lease contract, its budget authority is scored in the first year of the obligation ("upfront") in the amount of the net present value of the government's total estimated obligations over the life of the contract. This requires the government agency undertaking the project to secure an appropriation for the entire scored amount in year one of a project that may have a 50-year project life. This rule is also applied to long-term partnership obligations. If the transaction is structured as an "operating lease," however, the scored amount is one single year's lease payment, plus lease cancellation costs.

One effect of the scorekeepers' interpretation is that the large budgetary requirements effectively preclude agencies from entering into long-term obligations. An agency entering into a capital lease or lease-purchase contract must have budget authority available for an amount that often equals or exceeds the cost to purchase the asset outright. As a result, the current scoring interpretation often creates unintended effects and additional costs for taxpayers. For example, a short-term lease may appear "cheaper" as part of an agency's annual budget, but the terms, conditions, and rent amounts on short-term leases are generally less favorable than longer leases or outright purchases. When scoring leads an agency to choose the former, higher costs result over time.

Three examples illustrate this problem. The National Oceanographic and Atmospheric Administration limited the term of its lease for a new building to 15 years to avoid the OMB's scoring requirement of forward funding \$14 million in lease payments, even though the owner had offered favorable set rates for two five-year extensions. Leasing a building for the Patent and Trademark Office was estimated to cost \$48 million more than construction and \$38 million more than lease-purchase. Leasing the Department of Transportation's headquarters building was estimated to cost \$190 million more than construction. In addition to higher costs, the scoring rules can encourage agencies to occupy lower-quality space -- a common complaint by

both government employees and the taxpayers who visit them -- potentially hindering accomplishment of their missions.

Just as important, current scoring practices can impede government from enjoying the benefits of partnership with the private sector. Scoring applies even when the private sector provides the financing, if the government can be seen as responsible for payments used to cover private debt. Thus, while privatization and public-private partnerships provide a sound way of doing business, and have proven to be successful for many state, local, and foreign governments, scoring as practiced today in the federal government effectively halts P<sup>2</sup> transactions.

In fact, scoring changes have clouded the future of RCI and its P<sup>2</sup> successors. In 1997, after the MHPI was enacted, then-OMB Director Franklin Raines issued guidelines that allowed DoD to convey property to private developers in exchange for housing or investment in a limited liability corporation (LLC) with no scoring impact. These guidelines effectively allowed RCI to go forward, as they enabled the private partners in RCI LLC "partnerships" to borrow without the long-term project being scored. In 2005, however, OMB changed its position. Although there was no change in the law, Director Joshua Bolten issued a memo stipulating that after 2010, if the LLCs provided for under MHPI were to borrow any more funds, these obligations would be scored by "traditional methods." This has been interpreted to mean an amount equal to the total borrowing. When the Privatization of Army Lodging (PAL) program was designed to build on RCI's success, the Army would have preferred to use the RCI-type LLC structure but OMB would not allow this. PAL avoids scoring because there is no government investment, and government is not a member of the ownership entity. However, neither the government nor the taxpayer enjoys the benefits that would have been conferred by the "partnership" structure.

While private financiers and investors are ready to actively participate in repairing and rebuilding the nation's infrastructure and government facilities of all types, the new scoring interpretations may make it impossible for them to do so jointly with government. Agencies have voiced concerns regarding the application of scoring rules to federal real estate and have asked that these rules be reexamined, and potentially revised, to recognize the federal government's dilemma: the need for substantial capital investment facing heavy budget deficits and the lack of federal appropriations. Some of the proposals include:

- Retaining current scoring rules, but providing a large pool of budget authority for capital expenditures that is "fenced off" from other discretionary expenditures.
- Allowing agencies to borrow from the Treasury (or, potentially, the Federal Financing Bank) and scoring this borrowing for real estate and infrastructure projects in the same manner as operating leases on an annual basis, with Congressional oversight over the use of funds equal to today's oversight over the GSA Federal Buildings Fund.
- Changing budgetary scoring practices to allow sale / leaseback and EUL / leaseback arrangements to be scored as operating leases.
- Establishing capital acquisition funds specific to individual agencies with capital-intensive operations, to allow for additional ownership opportunities.

## PERSPECTIVE: THE POTENTIAL IN BARRACKS

Barracks exemplify the potential for P<sup>2</sup> and the problems of achieving it. These buildings not only shelter soldiers, but also provide their haven from the rigors of intense military training and operations. When properly equipped and supported by essential maintenance, repair, and operational services, barracks ground the communities of single soldiers that have defined military life for millennia.

In today's Army, barracks are as important for recruiting and retaining soldiers as family housing was a decade ago when RCI was launched. The military is in a hotly contested market for the 18-to-25-year-old "Gen D-ers" (D for digital) who have many non-military choices competing for their commitments. Though their lifestyles are wide-ranging, their civilian habitats typically are comfortable, whether they bunk with buddies or live at home. Drawing them into the military requires not only financial inducements, which are now substantial, but attractive accommodation that compares with, and may have to exceed, what they leave behind. This is not a call for "soft" military living but a policy to sustain an all-volunteer force in a competitive economy.

Today, however, too many of the Army's barracks (officially, Unaccompanied Personnel Housing or UPH) are substandard. The maintenance backlog is \$2.3 billion. Approximately 80 percent of the current inventory (560,000 bedspaces -- the basic unit in barracks) is more than 30 years old, and over 90,000 single soldiers live in conditions the Army calls "inadequate." Some permanent party soldiers still live eight to a room with gang latrines; others are assigned to tiny rooms and share a bath with three other soldiers. Soldiers who would prefer to live on post with their units live off post due to severe shortages of single soldier housing. Where the off-post community cannot supply sufficient housing, overcrowded barracks result. The Army's 2007 Barracks Strategy states the requirement for 240,000 adequate, modernized bedspaces. Many of the existing spaces are in the wrong places: the Army's "transformation" strategy, which will relocate many battalion-sized units, is creating the need for about 80,000 bedspaces. The size of inventory awaiting upgrades and the number of major relocations make this an exceptionally difficult housing challenge.

Beyond providing bedspaces, barracks are communities of single soldiers who share a common purpose and ethos. In order to compete in the marketplace, they must not only provide clean, safe sleeping and living quarters, but they should be clustered around dining, fitness, recreation, entertainment and convenience shopping, all within easy walking distance of the main workplace. This is a time-tested military design. But in recent years, these elements often have been physically separated. Their integration is impeded by organizational, budgetary, and statutory boundaries. Army planners are aware of the clustering concept, but they face formidable odds in bringing it to life. "Silos" (vertical channels for planning, budgeting, and decision-making) and "rice bowls" (an organization's allocated resources) conspire to limit integration of the very functions that comprise a barracks military community.

The traditional, decentralized model of barracks management has led to imbalances and inefficiencies. For example, one unit may have extra barracks space which it uses for offices while another is crowded and short of space. To improve space utilization, some installations are transitioning to centralized barracks control and management, and at Fort Hood, barracks

management has been consolidated with the RCI office, ensuring more effective overall management of space and property.

Enter the private developer. As RCI and other MHPI programs have shown, business partners bring crucial capabilities to government programs: fresh, independent, user-based thinking; zealous attention to efficiencies in planning, building, and operations; ongoing innovation in building products and processes; and a lifecycle view in decision-making. The developer-manager, concerned with sustaining value, proactively invests in the property to maintain its functionality and attractiveness, not in reaction to crises.

The MHPI legislation authorizes DoD to enlist the real estate industry to revitalize barracks and transient lodging as well as family housing. Through RCI, the Army has vigorously pursued family housing P<sup>2</sup>s and produced extraordinary results (see *Army RCI: A P<sup>2</sup> For Military Housing*). But the application of P<sup>2</sup>s in the Army's barracks program has been sporadic and much slower. Ten years after RCI's launch, barracks P<sup>2</sup> is still in the pilot stage. Five pilots -- at Forts Bliss, Bragg, Drum, Irwin, and Stewart -- are limited to Senior NCOs and address less than one percent (about 1,200 bedspaces) of the total US barracks inventory. A sixth pilot now under consideration for Fort Polk would encompass that post's entire barracks portfolio, adding 3,600 spaces to the P<sup>2</sup> inventory.

Between 2009 and 2013, the Army plans to spend \$10 billion in military construction funds to build about 63,000 bedspaces for single soldiers. This equates to roughly \$160,000 per bedspace (including the costs of ancillary infrastructure and facilities) and fulfills about one-quarter of the stated need. Yet private developers estimate they could build barracks at one-third to one-half less than the government's cost and operate them at 15 percent lower ongoing cost. In addition, P<sup>2</sup> would ensure that the barracks were properly maintained and operated over their life -- a significant improvement on the current system whereby operations and maintenance funds do not fully cover the projected costs and can be diverted for other military needs, resulting in facilities that deteriorate faster and need replacement sooner.

The current barracks strategy contrasts sharply with the Army's commitment to privatized family housing. If the Army matched its RCI achievement and included its entire barracks inventory in P<sup>2</sup>s, the taxpayer would save billions of dollars over the barracks' lives, the Army would clear its maintenance backlog, and soldiers would have measurably better facilities and living environments. Involving proven RCI developers and private homebuilders with strong track records would also provide an opportunity to redefine the product, incorporating new designs and practices that have been tested in the modern marketplace, and would substantially contribute to the Army's mission by strengthening its ability to attract and retain soldiers.

The barracks situation illustrates the "virtuous circle" that marks P<sup>2</sup> candidates: policymakers and the public recognize the acute need for improvement in barracks conditions; the current system has not produced cost-effective, high-quality results and is unlikely to do so within a satisfactory time frame; the authorities for P<sup>2</sup> are in place; and the industry has substantial capacity to deliver superior barracks products. Consequently, the Forum considered an alternative, RCI-inspired strategy for barracks. A preliminary 50-year lifecycle analysis shows that a barracks program similar to RCI could eliminate the government's obligations for construction, operations, and maintenance costs and could generate upwards of \$5 billion in present value advantage to the federal government, including payments required for the BAH.



This P<sup>2</sup> advantage would buy 50,000 new bedspaces -- a substantial proportion of the Army's total barracks need.

Despite the clear benefits, barracks P<sup>2</sup> has been blocked from more extensive application by three serious, but not insurmountable, obstacles. The first is cultural. Many NCOs believe that private management will restrict them from entering soldiers' quarters to keep order and discipline, and will undermine unit cohesion. As exemplars of Army leadership, these senior NCOs are respected at all levels. This is one reason the barracks P<sup>2</sup> pilots have been limited to grades E6 and above.

Developers have every reason to allow Army authorities in soldiers' quarters because they can help protect facilities from disorder and damage. As for the cohesion concern, a Command Sergeant Major who strongly supports RCI and barracks P<sup>2</sup> said this: "The 'Army Ethos,' unit cohesion, esprit de corps, and development of unit leadership are not formed or fostered in the barracks. They are honed on duty at the small-unit level with the first-line supervisor and the unit chain of command. Training is where we as an Army teach these traits. If you use that line of argument, then a newly married soldier living in an RCI house does not have the Army Ethos, does not feel part of the team, has no pride in his unit or organization, and will never develop into a leader. But in fact, we are giving him a new RCI house, the best this nation can provide, while his single team leader lives in the barracks. And that kind of inequity poses the greater threat to cohesion." As an RCI developer also observed, "basic equity and fairness would suggest that marital status should not be a determinant in the quality of soldier housing. Good housing for all soldiers should form the bedrock of the compact soldiers make with society."

The Bush Administration, acknowledging this issue in the 2007 National Defense Authorization Act, proposed using "off-the-shelf private sector designs and industry construction practices and techniques" to lower construction costs and remove the inequity. The Administration indicated that DoD's experience "in applying local standards, designs, and construction practices and techniques for military housing" has resulted in "larger and more livable dwellings at costs comparable to MILCON standards -- all to the benefit of our personnel."

The second obstacle to barracks P<sup>2</sup> is creating and sustaining an income stream for the private partner. Unlike married soldiers, single soldiers living on post receive no BAH; they are simply assigned to quarters. Barracks P<sup>2</sup> would require adding a BAH payment for single soldiers. While the dollars required for a new BAH would be significant, the investment would be paid for many times over with the construction and operating savings available through the private partner. For example, at one post, the Army plans to spend about \$166 million to upgrade existing barracks and building systems, not including operations and maintenance costs. The post's RCI partner has offered to provide market-standard apartments for all barracks by 2011, requiring the funding of a \$26 million BAH bill to proceed. The developer would invest approximately \$186 million during the first five years to build and renovate the barracks, and would reinvest an estimated \$1.5 billion into the program over the life of a 50-year operations and maintenance contract. The new barracks could be delivered in half the time it would under MILCON, a difference that could keep many young soldiers from leaving the Army.

Under the RCI model, married soldiers continue to receive BAH while they are deployed (provided the spouse remains in the on-post housing). If single soldiers also received the BAH

while deployed, the private partners could afford to maintain empty space to accommodate returning battalions. Battalions might not occupy the same space they left, but they could move into equivalent, contiguous, well-maintained quarters, much as they reserve and rotate vehicles and other equipment. This is a large-scale form of "hoteling," and is effectively the strategy that global companies use with hotel chains in housing personnel for their training programs. It also mirrors the individual strategy that civilian singles follow when they are reassigned by their employers or take new jobs.

The third obstacle is the current 1+1 barracks standard (a private room for each soldier in a two-room configuration with a shared bath and kitchenette) that was adopted in 1995. This space standard is higher than competitive market factors suggest a young single soldier requires or expects. Civilian peers of E1s through E4s generally live in less space or have more roommates. However, applied to senior NCOs, the 1+1 standard does not provide the quality and amenities offered in the surrounding community, causing many to live off post and taking their role-model standing and leadership qualities with them.

Private sector space and buildout standards offer savings on capital costs for equivalent -- and often better -- quality. For junior enlisted soldiers, the lifecycle cost of government construction exceeds private sector comparables by 30 percent or more. The difference is due in part to the building standard, which is over-designed and over-engineered compared to civilian housing. Building to soldiers' needs and market standards -- for example, using wood instead of concrete, fitting out one kitchen and common area per eight soldiers versus two (like a college dorm suite) -- could, by one developer's estimate, save 15 percent on capital costs. The five approved pilot projects, and single apartment community housing products generally offered by private partners, create attractive, efficiently-built housing that will attract the important senior NCO cohort back on post.

A barracks P<sup>2</sup> program could also meet the urgent need for special facilities and services to accommodate "Wounded Warriors" as they transition to civilian life. The integration of living, healthcare, rehabilitation, recreation, and visiting family facilities is especially intricate and would benefit greatly from the ingenuity and expertise of three specialist private market segments: healthcare, assisted living, and community development. The market leaders in these segments have succeeded in producing well-designed products with customized services and operating efficiencies. With Congressional and Administration leadership, integrated care for Wounded Warriors under a P<sup>2</sup> model could be a far-reaching pilot program crossing DoD, VA, and HUD program boundaries, bringing immense potential benefit to our returning veterans.

The Army should strongly consider adopting a full-scale barracks P<sup>2</sup> program. Such a program would establish equitable standards between single and married soldiers while improving recruiting and retention. It would also produce substantial financial benefits to the Army and the taxpayer over government-built and operated barracks. Using existing authorities, policies and practices, the Army headquarters and major commands, with the close involvement of NCO leaders, could work with leading private developers and homebuilders to overcome the hurdles and launch an aggressive campaign covering the entire barracks inventory and targeting 95 percent completion by 2015. The Army has the need, the industry has the capacity, and the capital markets are open for creditworthy projects. Soldiers and taxpayers would benefit for years to come.

## PERSPECTIVE: PROGRESS ON SUSTAINABILITY

Sustainability is a complex concept, difficult to grasp, counter-culture in solutions, and costly to execute. But from climate change and high energy costs to conservation and eco-development, "green" issues are on everyone's mind and at the top of public agendas.

The data related to US real estate compel attention. Buildings use 40 percent of the total energy and 68 percent of the total electricity, produce 38 percent of the total carbon dioxide emissions, and account for 12 percent of the total daily water consumption.

Rising to our sustainability challenge requires a wholly new strategy for the nation's infrastructure and physical development, holistic thinking about our everyday lives, and the blending of science, economics, and politics to achieve real results. Numerous techniques and technologies are available to help cut carbon emissions, reduce energy usage, and clean up or avoid degrading our land, air, and water. Less prevalent are examples of how such methods can be brought to bear in a strategic and economic way. This is where P<sup>2</sup> steps in.

The federal government, specifically though not solely through DoD, can create a "sustainability market" as it has for military housing, lodging, barracks, warehousing, retail, and other support functions. The US military has proven its effectiveness in achieving specific policy goals, not only in its core warfighting mission but also in its disaster relief, domestic support, and peacekeeping operations. Its unique combination of a "can do" ethos, leadership, organization, discipline, and processes has been harnessed during the past decade in P<sup>2</sup> projects that demonstrate what can be achieved.

In this vision, DoD becomes a catalyst for change. Because of its global scale and reach, 24/7 operations, and heavy resource consumption, reforms in planning and management of military installations can set examples for new ways of doing business in civilian organizations, both within and outside of government. DoD has the world's largest managed infrastructure portfolio -- nearly 2 billion square feet of space with plant valued at over \$500 billion on a landmass totaling 40,000 square miles. Over \$2.3 billion is spent annually on energy for buildings and facilities alone.

Military transformation has opened opportunities for DoD to rethink its approach to managing resources. While private investment is unlikely to fully replace traditional military construction and infrastructure appropriations, it can create a substantial funding stream to expand and improve military facilities while allowing DoD to focus its spending on military modernization and readiness. The P<sup>2</sup> housing programs have yielded an 11:1 "funding multiplier" of private to public capital over the past decade. P<sup>2</sup> can help build an enterprise-wide sustainability strategy by articulating a vision, defining a mission and objectives, setting performance measures, and planning actions that will achieve the desired outcomes.

Already the conversion of military bases throughout the US as part of the BRAC process, creates an opportunity to infuse social, economic, and environmental vitality into the affected regions. For example, Fort Ord, a former Army post in Monterrey, California, is being transformed into a magnet campus of the California State University system. The plan incorporates concepts of mixed-use development, alternative transportation, environmental

conservation, sustainability, and affordability. It requires that "portions of the former base . . . be developed into a mixed-use community which provides housing and employment opportunities, reducing the need for long distance commuting throughout the region."

Existing P<sup>2</sup> tools for housing and utilities EULs have been successful in leveraging Army resources. RCI has shown that P<sup>2</sup> can bring new sustainability concepts to fruition ahead of their mainstream use. In creating sustainability programs, Clark Realty Capital, LLC, the RCI developer at Fort Belvoir, communicated with tenants to clarify tradeoffs among conflicting objectives (e.g., focus groups met to discuss low-energy appliances to reduce utility costs and durable finishes to reduce service calls). At the planning and design stages, dozens of real estate professionals and building tradespeople collaborated. Fort Belvoir's next RCI neighborhood will be the greenest to date; all new homes will be "EnergyStar" certified and the development team intends to achieve LEED (Leadership in Energy and Environmental Design) Platinum certification for the neighborhood center. New Urbanism master planning has reduced automobile usage and the development footprint. A tree preservation / replacement program improves air quality and reduces energy usage. In addition to a neighborhood program for household recyclables, more than 75 percent of all construction waste is recycled, diverting it from landfills and reducing the demand for new construction materials, while metal, consumer goods, and oil from the entire installation are recycled. These sustainability features are replicated in varying degrees on RCI posts across the country.

The Army aims to be a national leader in sustainability. Adapting the corporate model known as "triple bottom line" -- how processes affect profits, the environment, and social well being -- the Army is examining its actions for its own "triple bottom line plus" -- its impact on mission, environment, and community, plus the economic benefits of sustainability. Using its size, energy requirements, and program capabilities, it plans to launch an array of new P<sup>2</sup> initiatives as real-time test-beds for sustainability applications and integrate these with existing RCI, PAL, utilities P<sup>2</sup>s, and other programs.

For example, the Army plans to become the largest purchaser of renewable energy in the country. In Hawaii, the RCI partner, Actus Lend Lease, is developing the world's largest solar powered community, with a 6 mega-watt photovoltaic system and solar domestic hot water systems. These measures are expected to save 1.5 million gallons of oil and reduce CO<sub>2</sub> emissions by 10,000 tons annually. Projects in RCI and related programs show that project scope and building quality can be improved while construction time and lifecycle costs can be reduced. These results reset the bar for all residential and much commercial development.

The Army is also striving to improve awareness of sustainability and to couple sustainability with accountability. Each RCI home is metered and is benchmarked for energy consumption. If soldiers use more than the benchmark, they will pay the difference; if they use less, they will receive a refund. Such small steps will pay large dividends in both institutional and individual consumption

In a broader, proactive energy initiative, DoD plans to fully integrate its energy and utilities management program, exploiting the synergies in P<sup>2</sup> for utilities, energy procurement, and water/energy conservation. It has been steadily divesting utility systems as a means of recapitalizing aging infrastructure, but its main thrust has been reducing energy consumption. In 2005, DoD set a goal of reaching 25 percent renewable energy procured or produced by

2025. By 2007, it was saving \$80 million annually in energy costs. DoD's "facility energy consumption intensity" is down more than 10 percent from the 2003 baseline.

DoD's strategy for reducing energy and water consumption includes new design techniques and energy efficient materials. The Army, for example, is using its significant buying power to require that all suppliers meet similar sustainability-based standards. The standards will create a level playing field, allowing competition to reduce the price. The Air Force energy strategy highlights opportunities for energy generation projects at bases throughout the US, including potential commercial-grade, utility-scale solar energy projects.

Partnerships are playing a major role in these efforts. DoD and GSA have similar strategies to conserve energy and water resources, using private capital to finance energy saving investments through vehicles such as Energy Saving Performance Contracts (ESPC), Utility Energy Savings Contracts (UESC), and EULs. ESPCs enable agencies to accomplish energy projects without upfront capital costs and Congressional appropriations. UESCs engage local utilities to propose energy savings initiatives and arrange financing to pay for them.

In DoD, Fort Carson recently completed a solar array on a brownfields landfill through a P<sup>2</sup> lease arrangement. Nellis AFB used EUL for a third party to create the largest photovoltaic array in the Americas. All the power from this array, 14.2 megawatts, will be put on the grid. Tyndall AFB in Florida reduced potable water consumption by 75 million gallons per year through an ESPC and water awareness program. In GSA, more than 60 ESPC and UESC contracts have been awarded for nearly \$200 million, with energy savings of over one trillion BTUs per year.

Federal policy recognizes the critical importance of public-private cooperation in promoting and achieving sustainability. As the National Environmental Policy Act (NEPA) states, "It is the continuing policy of the Federal government, in cooperating with State and local governments, and other concerned public and private organizations, to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations of Americans." Executive Orders set goals in the areas of energy efficiency, acquisition, renewable energy, toxics reductions, recycling, renewable energy, sustainable buildings, electronics stewardship, fleets, and water conservation; and require more widespread use of Environmental Management Systems as the framework in which to manage and continually improve these sustainable practices. GSA has a comprehensive sustainable design program through which all GSA new construction projects and substantial renovations must be certified through the LEED system. Utilizing a sustainable design philosophy encourages decisions at each phase of the design process that will reduce negative impacts on the environment and the health of the occupants, without compromising the bottom line. This integrated, holistic approach encourages compromise and tradeoffs in all phases of a building's lifecycle, from design, and construction through operations and decommissioning.

Sustainability is a work in progress, moving rapidly from environmental activism to mainstream programs. Some of the most popular measures are easy to decide on and implement -- e.g., buying carbon reduction credits -- but they may not achieve the overarching objective of reducing greenhouse gas emissions. The more difficult and costly actions -- e.g., replacing air handling systems and installing solar panels -- require fundamental tradeoffs between current operating budgets and long-term capital investment. As RCI and related P<sup>2</sup>

programs have shown, the private partner is more likely than the government partner to be able to justify the tradeoffs and restructure the financing to make such innovations work quickly and effectively. Business has made tremendous investments in sustainability -- government has only to seek its knowledge and experience to make a substantial energy and environmental difference. The potential for an immediate return on investment that reduces energy consumption and CO2 emissions is available today. Sustainability is the ultimate application of P<sup>2</sup> principles, as it defines whether the vision for P<sup>2</sup> will stand the test of time and evolution in both military and civilian communities.

**THE URBAN LAND INSTITUTE (ULI) /  
THE WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS (WWICS)  
FORUM ON PRIVATIZATION - 29-30 APRIL 2008 - WASHINGTON, DC**

**FORUM PROGRAM**

**TUESDAY, 29 APRIL                      ARMY-NAVY CLUB**

1800-1900	Reception: Arnold Room
1900-1910	Welcome: Washington Room
1910-1925	Remarks: General John M. "Jack" Keane, USA (Retired)
1930-2100	Dinner and Conversation
2100-?	After-Dinner Drinks: Lounge

**WEDNESDAY, 30 APRIL                      URBAN LAND INSTITUTE**

0700-0800	Registration / Continental Breakfast
0800-0815	Welcome / Agenda for the Day: James M. DeFrancia
0815-0845	Perspective on Privatization: Mahlon Apgar, IV / Jean S. Friedberg
0845-1015	Plenary Discussion
1015-1030	Break
1030-1200	Discussion Groups / Break-out Session 1
1200-1300	Lunch
1300-1400	Discussion Groups / Break-out Session 2
1400-1415	Break / Discussion Leaders-Rapporteurs Meet
1415-1445	Discussion Leaders-Rapporteurs Feedback
1445-1545	Plenary Discussion
1545-1600	Closing Remarks: James M. DeFrancia / Mahlon Apgar, IV
1600-1700	Reception

## URBAN LAND INSTITUTE SPRING COUNCIL FORUM PROGRAM

DALLAS -- MAY 9, 2008

### "The Promise of Privatization: Lessons from Military Housing"

The US military has pioneered innovative privatization and public-private partnership programs to develop and manage critical elements of its infrastructure and real estate. As our Nation looks for ways to meet housing, community development and infrastructure needs, the military's experience offers lessons for public policymakers, private developers and other stakeholders. ULI and Army leaders will look at what has and has not worked, and discuss policies and practices that could be applied to meet other housing, infrastructure and community development needs through private enterprise.

**Moderator: Mahlon (Sandy) Apgar, IV**

Senior Scholar, Woodrow Wilson International Center for Scholars

**Welcome: Richard M. Rosan**

President Worldwide, ULI

**Keynotes: The Honorable Chet Edwards, Member of Congress (D-Texas)**

Chairman, Military Construction and Veterans Affairs Appropriations Subcommittee

**Geoffrey Prosch**

Principal Deputy Assistant Secretary of the Army (Installations and Environment)

**Panelists: James M. DeFrancia**

President, Lowe Enterprises Community Development  
ULI Advisor to Army RCI - 1998-99

**Major General John A. Macdonald, USA**

Deputy Commanding General, US Army Installation Management Command  
Senior Military Commander for Army Housing / Real Estate

**Dr. Richard B. Peiser**

Spear Professor of Real Estate, Harvard Graduate School of Design  
Community Development Consultant to Army RCI - 1998-99

**Jeffrey A. Simon**

President, Actus Lend Lease  
Development Partner for Army RCI in Fort Hood, Texas, Other RCI Projects;  
Development Partner for Privatization of Army Lodging (PAL) program





## PARTICIPANTS AND EXPERT RESOURCES

**Honorable Mahlon Apgar, IV.** Mr. Apgar, an international consultant on housing, infrastructure, and real estate, is a Senior Scholar at WWICS and a Senior Advisor to the Boston Consulting Group, and teaches in the Oxford and Yale MBA programs. He is a former partner of McKinsey and Company. He was Assistant Secretary of the Army (I&E), 1998-2001, and launched the Residential Communities Initiative (RCI). He received a BA from Dartmouth College and a MBA from the Harvard Business School.

**Honorable Valerie L. Baldwin.** Ms. Baldwin is an independent consultant to the defense industry. She was Assistant Secretary of the Army for Financial Management and CFO, 2004-2007, overseeing finance policies, budgeting, and planning. Prior to that, she was Staff Director, House Appropriations Committee Subcommittee on Military Construction. Ms. Baldwin received a BA from Wichita State University, MA from the London School of Economics, and JD from the University of Kansas School of Law.

**Honorable Michael J. Bayer.** Mr. Bayer is Chairman of the Defense Business Board and a member of the Defense Science Board. He is also President and CEO of Dumbarton Strategies, providing strategic planning and merger and acquisition counsel in the energy and national security sectors. He is also a Director of Dyncorp International, Inc. (NYSE), Willbros, Group Inc. (NYSE), Vangent, Inc., and Stratos Global Corp. He received a BS and MBA from Ohio State University and JD from Capital University School of Law.

**Ivan G. Bolden.** Mr. Bolden is Chief, Public-Private Partnership Initiatives, Department of the Army. He oversees Army RCI, Privatization of Army Lodging, Utilities Privatization, Enhanced Use Leasing, Municipal Services/Partnerships and Competitive Sourcing. Previously, he was a senior staff officer in the Office of the ASAI&E, and retired as a Colonel after a 27-year Army career. Mr. Bolden received a BS from Southern University and a MA in Public Administration from Pepperdine University.

**Kim H. Burke.** Ms. Burke is a Managing Director specializing in Public Institutions at Jones Lang LaSalle. She is an expert on Enhanced Use Leasing and the federal budget system. Prior to JLL, she was a Principal in Ernst & Young's Real Estate group, supporting government agencies, including the Army and VA, in real estate strategy and privatization. She was also chief analyst for credit policy at OMB. Ms. Burke received a BA from the University of Virginia and a MBA from the University of Texas.

**Dr. Craig E. College.** Dr. College is Deputy Assistant Chief of Staff of the Army for Installation Management, responsible for providing resources for policies, programs, and budgets for Army installations worldwide and for the well-being of the force who live, work, and train on Army installations. Formerly, he was the Deputy Assistant Secretary of the Army for Infrastructure Analysis. He holds a BSc from the US Military Academy and MA and PhD degrees in Economics from Stanford University.

**James M. DeFrancia.** Mr. DeFrancia is President of Lowe Enterprises Community Development, responsible for development management and advisory services on planned communities in the US and abroad. He is a Life Trustee and former Vice Chairman of the ULI, a former Director of the National Association of Homebuilders and the Metropolitan Washington Airports Authority, and a Director of Wynne/Jackson, Inc. Mr. DeFrancia received a BS from the US Naval Academy and served in the Navy.

**Robert W. Dove.** Mr. Dove is Managing Director and Co-Head of Infrastructure Financing, The Carlyle Group. Prior to joining Carlyle, Mr. Dove spent 10 years with Bechtel Enterprises, the financing, development, and investment unit of Bechtel Group, the engineering and construction company. He focused on providing capital for infrastructure, services, and operations in Europe and Asia, including Tube Lines Limited, a UK PPP for the London Underground, and JVs for water, airports, and power.

**Michael G. Enschede.** Mr. Enschede is Chief, Operations and Regulatory, US Army Corps of Engineers. He oversees the national program for Operations and Maintenance of Navigation, Hydropower, Environmental Stewardship, and Regulatory, including dams, land and water, harbors, and channels. He is also Regional Integration Team Leader for the Great Lakes and Ohio River Division. Mr. Enschede received his BS from Kansas State University and did graduate work at KSU and Slippery Rock University.

**Jean S. Friedberg, Jr.** Mr. Friedberg advises clients on issues involving regional growth, community and real estate development, and public-private partnerships. Previously, he was with The Rouse Company in community development and was a consultant with McKinsey & Company. He played a key role in developing the RCI program and is engaged in implementation of BRAC 2005 in Maryland. He has a BS from Washington and Lee University and a MBA in Finance from New York University.

**Daniel Glasson.** Mr. Glasson is a Project Manager in the Office of Economic Adjustment, Department of Defense, responsible for providing assistance to communities impacted by defense program changes, including BRAC. He was also a Fulbright Scholar and Peace Corps Volunteer. Mr. Glasson received his Master of Urban Planning from the University of Michigan and BA degrees in Economics and Environmental Studies from Case Western Reserve University.

**Philip W. Grone.** Mr. Grone was Deputy Under Secretary of Defense for Installations and Environment, 2004-2007, and Principal Assistant DUSD(I&E), 2001-2004. He had global management and oversight responsibility for DoD's military installations. He previously served 16 years on staff in the House of Representatives, including 8 years with the Armed Services Committee. Mr. Grone holds a BA *summa cum laude* from Northern Kentucky University and a MA from the University of Virginia.

**Honorable Robert J. Henke.** Mr. Henke is Assistant Secretary for Management, Veterans Administration, responsible for the VA's budget, financial policy and operations, real estate asset management, acquisition and materiel management, and business oversight. Prior to this, he was Principal Deputy Under Secretary of Defense (Comptroller) at DoD and served on the Senate Appropriations Committee staff. He has a BA from the University of Notre Dame and a MPA from Syracuse University.

**Honorable William Hudnut, III.** Mr. Hudnut is a Senior Resident Fellow of ULI. He spent 24 years as a Congressman, Mayor of Indianapolis, and Council Member/Mayor of Chevy Chase, MD. He spearheaded the formation of a public-private sector partnership that led to Indianapolis's emergence during the 1980s as a major American city. He holds a BA from Princeton University with high honors and Phi Beta Kappa, and a MDiv degree *summa cum laude* from Union Theological Seminary in New York.

**W. Cleve Johnson.** Mr. Johnson is Managing Director, Clark Realty Capital, LLC, and oversees Clark Realty's \$6 billion investment and development portfolio. His experience in numerous residential, commercial, and mixed-use projects includes seven military family housing projects, the pioneering Fort Belvoir RCI program, and the first Navy single-sailor housing initiative in San Diego. Mr. Johnson received a BSc in Civil Engineering from Stanford University and a MBA from the University of Virginia.

**General John M. Keane, USA (Retired).** General Keane is a Member of the Defense Policy Board; Senior Advisor to Kohlberg, Kravis, Roberts; advisor to the Chairman, URS Corporation; and a director of METLIFE, Inc. and General Dynamics Corporation. As Vice Chief of Staff of the Army from 1999-2003, he managed global operations, and helped to launch RCI and other transformational programs. He holds a BS and honorary PhD from Fordham University and a MA from Western Kentucky University.

**Honorable Kenneth J. Krieg.** Mr. Krieg was Under Secretary of Defense for Acquisitions, Technology and Logistics, 2005-2007. From 2001 on, he held various DoD roles including Director, Program Analysis and Evaluation, and Special Assistant to the Secretary of Defense. Earlier, he was a marketing and sales executive of International Paper. Mr. Krieg received a BA from Davidson College and a Masters in Public Policy from Harvard University's Kennedy School of Government.

**Colonel Brian W. Lauritzen, USA (Retired).** Colonel Lauritzen was Garrison Commander, Fort Belvoir, VA, 2005-2008, responsible for planning, budgeting, construction, base operations, and partnership liaison with the Army RCI developer. Earlier, he was Executive Officer to the Army's Military Deputy for Budget in the OASAFM/CFO, artillery battalion commander, and OSD staff officer. He holds a BS from the US Military Academy and a MS from the Colorado School of Mines.

**Amber Levofsky.** Ms. Levofsky is Program Lead for Environment and Sustainability and advisor in the Office of Economic Adjustment, DoD. She also acts as a liaison between communities and the military. Previously, she founded and led the Levofsky Group, was Special Projects Coordinator for the Chapel Hill Downtown Partnership, and was Development and Entitlement Manager for New Urban Communities. Ms. Levofsky received MBA and MRP degrees from the University of North Carolina.

**Maureen McAvey.** Ms. McAvey is Executive Vice President-Initiatives at ULI, responsible for the Infrastructure Initiative, Climate, Land Use and Energy, and special projects in housing. She has more than 25 years of experience in real estate development, consulting, and public / private financial structures. Previously, she was director of business development for the Federal Realty Investment Trust. She holds Master's degrees from Harvard University and the University of Minnesota.

**John K. McIlwain.** Mr. McIlwain is a Senior Resident Fellow at ULI and J. Ronald Terwilliger Chair for Housing. He also oversees ULI's workforce housing initiative. He is Chairman of the Center for Housing Policy. Previously, he established and ran the American Communities Fund (ACF) for Fannie Mae, investing in affordable housing, and was President and CEO of the Fannie Mae Foundation. He holds a BA from Princeton University and a JD from the New York University School of Law.

**Robert A. Peck.** Mr. Peck is Senior Vice President of Jones Lang LaSalle. He advises major organizations on real estate issues. From 1996-2001, he was Commissioner of Public Buildings, General Services Administration, responsible for nationwide asset management, design / construction, leasing, building management, and disposals. Earlier, he was at OMB and was chief of staff to the late Senator Daniel P. Moynihan. He holds a BA from the University of Pennsylvania and a JD from Yale Law School.

**Honorable Bernard D. Rostker.** Dr. Rostker is a Senior Fellow at The RAND Corporation. As Under Secretary of the Army, 1998-2000, he was an early sponsor of RCI. He has also been Under Secretary of Defense for Personnel and Readiness, Assistant Secretary of the Navy for Manpower and Reserve Affairs, and Director of Selective Service. He is an elected fellow of the National Academy of Public Administration. Dr. Rostker received his MA and PhD from Syracuse University.

**Allison R. Sands.** Ms. Sands is Deputy in the Office of the Deputy Assistant Secretary of the Army for Privatization and Partnerships, responsible for policy oversight and direction of RCI, PAL, utilities privatization, and other initiatives. Previously, she was Program Director for PAL, Chief of Plans and Policy for the Army Lodging Program at the Army Community and Family Support Center, and an Army Air Defense officer for 12 years. Ms. Sands received a BS in Political Science from Santa Clara University.

**Dr. Barry Scribner.** Dr. Scribner is an International Director and Co-President, Public Institutions Group, Jones Lang LaSalle. He has been lead real estate consultant to Army RCI since its inception and leads teams on privatization programs in DoD, VA, GSA, and other agencies. He has over 20 years of military experience and 4 years of business experience in design / build projects and facilities management for Tenneco. He holds a BS from the US Military Academy and a PhD from Harvard University.

**Joseph K. Sikes.** Mr. Sikes is Director, Housing and Competitive Sourcing, Office of the Secretary of Defense. He is responsible for policy and guidance in support of Commercial Activities programs in DoD. Earlier, he helped implement the Military Housing Privatization Initiative while Deputy Director of the Housing Revitalization Support Office and held other installation management positions. Mr. Sikes received his BS from the US Naval Academy and attended the National War College.

**Jeffrey A. Simon.** Mr. Simon is Executive Chairman of Actus Lend Lease, the largest developer in military privatization programs, covering 40,000 homes on 21 DoD installations, including 7 in RCI, and 4,400 rooms on 12 PAL sites. Previously, he headed redevelopment of Fort Devens, MA, and Naval Air Station Bermuda; negotiated Navy sites in Boston and Annapolis; and was involved in Westover Air Force Base. He holds a BA from Case Western University and a MA from Harvard University.

**Stephen M. Sorett.** Mr. Sorett is a Partner of McKenna Long & Aldridge LLP. A founder of the National Council for Public Private Partnerships, Mr. Sorett is a recognized leader in the field of public private partnerships. He is Chair of the American Bar Association's Outsourcing, Privatization and Related Transactions Committee, which is preparing a white paper on federal budgetary scoring. Mr. Sorett received a BA from Yale University and a JD from George Washington University.

**Honorable William Winkenwerder, Jr.** Dr. Winkenwerder is Chairman of The Winkenwerder Company LLC. A recognized leader in American health care, he served as Assistant Secretary of Defense for Health Affairs, 2001-2007, managing a \$40 billion budget and 130,000 personnel. He is also a senior advisor to Deloitte Consulting and company board member. He received a BS from Davidson College, a MD from the University of North Carolina, and a MBA from the Wharton School of Business.

**Honorable David L. Winstead.** Mr. Winstead is Commissioner of Public Buildings, General Services Administration, responsible for the asset management and design, construction, leasing, operations, and disposal of the federal government's public and private buildings. Formerly, he was Maryland Secretary of Transportation and an attorney in private practice. He holds a BA from Denison University, a MBA from Columbia University, and a JD from Catholic University's Columbus School of Law.

**Monica L. Andrews.** Ms. Andrews is a Research Assistant to the Project on Privatization at the Woodrow Wilson International Center for Scholars. Previously, she interned at GreenShape LLC, a green building consulting firm in Washington, DC, and was an undergraduate in Economics. As the daughter of two Army officers, she has first-hand experience in Army family housing. She received her BA from American University and will be pursuing graduate studies in urban planning.

**Leslie I. Bell.** Ms. Bell is an independent writer-editor with some 25 years experience helping business and government create high-quality written products. She has worked with the Army, Jones Lang LaSalle, and Sandy Apgar since 1998 to help craft a variety of communications during RCI's development. She has also consulted to The Boston Consulting Group and was a Communication Specialist with McKinsey and Company. She received a MA in English from The University of Chicago.

## GLOSSARY OF SELECTED TERMS IN PRIVATIZATION AND PARTNERSHIPS

*The following terms are used in policies, programs, projects, and practices concerning privatization and public-private partnerships. These definitions combine standard dictionary references with specific business, government, and professional usage. Certain "obvious" terms are included because they are defined or used differently in business and government. The federal government and real estate contexts are summarized for selected terms. Entries for federal government offices and programs begin with their acronyms.*

**ACSIM** -- Assistant Chief of Staff of the Army for Installation Management provides guidance on policy, program, and resource management for Army installations worldwide, including oversight of RCI, PAL, and other military privatization programs.

**Agency** -- A unit of government which performs specified functions and activities, either as part of a cabinet department or as an independent entity with its own Congressional mandate and reporting relationship.

**ASAFM/C** -- Assistant Secretary of the Army for Financial Management and Comptroller is responsible for formulating and defending the Army budget, reporting on the use of resources and achieved objectives, and providing financial information to commanders and managers for their decision-making.

**ASAI&E** -- Assistant Secretary of the Army for Installations and Environment is responsible for policy development; oversight of Army installation planning, construction, operations, and maintenance; BRAC; redevelopment, acquisitions, and dispositions; RCI, PAL, EUL, barracks privatization, and utilities privatization; energy development policies and programs; and environmental activities.

**BAH** -- Basic Allowance for Housing, appropriated by Congress, is used to offset the cost of housing when soldiers do not receive government-provided housing, depending on location, pay grade, and number of dependents; it is revised periodically based on local market conditions.

**BRAC** -- Base Realignment and Closure is the process used by the federal government to reorganize the US military installation infrastructure to achieve national security objectives and improve efficiency. An independent, non-partisan commission is convened for each BRAC round to evaluate DoD's analysis and present recommendations to Congress for final approval.

**Capital asset** -- In the federal context, capital assets are land, structures, equipment (including vehicle and aircraft fleets), and intellectual property (including software),

which are used by the federal government and have an estimated useful life of two years or more (*OMB Circular A-11*).

**Capital budget** -- Plan to make and finance long-term investments in land, buildings, infrastructure, plant, and equipment.

**Capital fund** -- Money set aside for spending on land, buildings, infrastructure, plant, and equipment in accord with a capital budget.

**Capital improvement** -- The addition of a permanent structural improvement or the restoration of some aspect of a property that either enhances the property's value or increases its useful life.

**Capital stack** -- Technique used to portray a project's funding structure. When shown visually, sources of funds are stacked vertically: various types of equity make up the base layers of the stack and different types of debt make up the top layers.

**CBO** -- Congressional Budget Office provides Congress with nonpartisan, objective, and timely analyses in all aspects of the federal budget to aid in economic and budgetary decisions, including estimates and information used in the federal budgetary scoring process.

**CDMP** -- Community Development and Management Plan serves as the business plan for each RCI project, defining the proposed scope of work and the developer's long-term relationship with the Army; contains plans for development; financing; operations and maintenance, and property management. The CDMP is subject to Army, OSD, and Congressional approval.

**Competitive sourcing** -- The use of a bidding process to determine which suppliers or contractors should be awarded a contract based on evaluative criteria such as cost, schedule, technical merit, and contractor qualifications. In the federal context, this process specifically determines whether a private sector contractor can provide a service more cost effectively than the agency currently providing the service.

**Core competency** -- A defined field or task at which an organization excels and which is difficult for others to replicate. In the federal context, this represents an agency's essential areas of expertise and skills required for achieving its Congressionally chartered mission.

**Cost of capital** -- A weighted average cost of debt and equity financing for a project. This measure is often used to approximate the return required to justify investment in a capital project such as a new facility.



**Debt service** -- Cash required over a given period for the repayment of interest and principal on a mortgage or other type of debt.

**DoD** -- Department of Defense, including the Army, Navy, Marine Corps, Air Force, Reserve components, and National Guard. DoD's projected 2009 budget is \$515 billion. It is responsible for about 5 million active and retired military and civilian personnel, and it manages facilities at more than 5,000 sites with 30 million acres of land worldwide.

**Economy of scale** -- The relative gain in output or cost savings derived from an increase in the size of a plant, firm, or activity.

**Equity** -- A stock or any other security representing an ownership interest. In the context of real estate, the difference between the current market value of a property and the amount the owner still owes on the mortgage.

**EUL** -- Enhanced Use Leasing allows certain government agencies to leverage underutilized land, buildings, or other assets by entering into long-term leases, with rent paid by the developer in the form of cash or in-kind services for facilities construction, improvement, and repair and payments for utilities and maintenance services.

**FAR** -- Federal Acquisition Regulations govern the process through which the government purchases goods and services, including recognition of needs and requirements, acquisition planning, contract formation, and contract administration.

**Government asset** -- Any item of economic value owned by a constitutionally and/or legally established public entity. See also "Capital asset."

**Government function** -- A program, service, or activity for which a unit of government is responsible and/or which is owned or provided by a unit of government. The determination of "responsibility" is often the key issue in deciding which functions could be incorporated in government-business partnerships. See also "Inherently governmental."

**GSA** -- General Services Administration provides real estate services for federal agencies, including acquisition and disposal, property management, construction and repairs, security services, information and communications technologies, and overall portfolio management. The Washington, DC area portfolio consists of 95 million rentable square feet in owned and leased space. See also "PBS."

**Inherently governmental** -- Functions performed by public agencies that are defined as precluding them from being performed by private sector organizations. In the context of property owned by the federal government, assets that specifically support agency missions may be constructed or construed to have limited or no private sector use.

**IPT** -- Integrated Process Team, a vehicle for decision-making in RCI and other programs, whose membership includes high-ranking officials responsible for policy and program oversight and implementation. Members are drawn from a cross-section of functions and are empowered to speed issue resolution.

**JV** -- Joint venture, a contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

**LEED** -- Leadership in Energy and Environmental Design, a rating and certification program created by the US Green Building Council, that measures performance in sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality. It is widely adopted for public and private sector projects.

**Leverage** -- The use of borrowed capital to increase the amount of funding available for investment. Investors may employ leverage to increase a project's return on equity.

**Market** -- A geographic area or demographic sector of commercial activity; may also refer to the potential demand for a commodity or service in such an area.

**MHPI** -- Military Housing Privatization Initiative, enacted by Congress in 1996 (National Defense Authorization Act, Section 2801), authorizes DoD to use innovative real estate, construction, financial, and operational tools to attract business in financing, building, and operating housing on and near military bases; it includes market-based building specifications, equity, and debt instruments, and guarantees. RCI, PAL, barracks privatization, and similar military partnership programs are based on this legislation.

**MILCON** -- Military Construction budgets and funding cover planning, design, construction, restoration, modernization, and related activities in DoD housing, barracks, transient lodging, training facilities, schools, hospitals, day care centers, airfields, office buildings, warehouses, ranges, and other military-specific structures; they can be used for existing and "new footprint" projects.

**Net income** -- A company's earnings, calculated by taking revenues and deducting the costs of doing business, depreciation, interest, taxes, and other expenses.

**Net operating income (NOI)** -- The difference between a real estate project's revenues and costs of doing business. The costs do not include a project's unique financial structure (e.g., debt service, taxes, depreciation) and other non-operating expenses (e.g., capital reserve, tenant improvements, leasing commissions). NOI is similar to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), a corporate finance measure that projects a company's financial condition in the absence of financial structuring.

**Net present value (NPV)** -- The present value of an investment's future [http://www.investorwords.com/5926/net\\_cash\\_flow.html](http://www.investorwords.com/5926/net_cash_flow.html) net cash flows less the initial investment. Present value is defined as the current value of future cash payments, discounted at some appropriate interest rate.

**O&M** -- Operations and Maintenance funds are authorized in DoD for facilities sustainment (maintenance and repair necessary to sustain facilities in good working order), restoration (restoring degraded facilities to working condition), and modernization (upgrading facilities to new or higher standards). O&M funds also pay for the costs to operate facilities, e.g., utilities payments, trash removal, and facility management services. See also "Sustainment."

**OMB** -- Office of Management and Budget assists the President in overseeing preparation of the federal budget by evaluating the effectiveness of agency programs, policies, and procedures; assessing competing funding demands among agencies; and setting funding priorities. OMB ensures that agency reports, rules, and proposed legislation are consistent with Budget and Administration policies; it promulgates scoring guidelines for long-term real property and other investments.

**Operating budget** -- An estimate of revenues and expenses over a specified future period of time.

**Operating margin** -- A ratio used to measure a company's operating efficiency and pricing strategy, calculated by dividing operating income by revenue.

**Operating income** -- The profit earned from a firm's normal core business operations. This value does not include profit earned from the firm's investments (such as earnings from firms in which the company has partial interests) or the effects of interest and taxes.

**OSD** -- Office of the Secretary of Defense includes the immediate offices of the Secretary, Deputy Secretary, Under Secretaries, and Assistant Secretaries of Defense; offices for test and evaluation, administration and management; and advisory positions for finance, policy, force readiness, and purchasing.

**Outsourcing** -- The process of contracting with one or more third-party vendor(s) to meet an organization's requirements and performance measures by providing services, staff, facilities, and/or goods according to prescribed conditions; outsourcing is often used to replace or substitute for the organization's own staff and facilities.

**P<sup>2</sup>** -- Denotes joint public-private efforts whether they are called partnerships or privatization.

**PAL** -- Privatization of Army Lodging provides for the construction, revitalization, and sustainment of transient lodging accommodations on Army posts. An extension of MHPI authorities and RCI operational concepts, the PAL program leverages on-post government land and lodging assets to obtain private capital and expertise for building, renovating, operating, and maintaining transient lodging for the Army over the long term.

**PAM** -- Portfolio Asset Management is a long-term oversight program that allows the Army to identify and mitigate its risks in RCI by measuring the portfolio's and related projects' success in meeting and sustaining financial and operational goals, as well as subjective goals for improving the quality of life of service members and their families.

**PBS** -- Public Buildings Service, an organization within the GSA, is the builder, developer, lessor, and manager of federally owned and leased properties totaling 347 million square feet throughout the US. See also "GSA."

**Privatization** -- Originally, the transfer of a property from government to a privately owned entity. More broadly, and as used in this report, privatization may describe many forms of shared ownership and management between government and business.

**Public-private partnership (PPP)** -- In the federal context, a public-private partnership is a legal agreement between an agency and a private sector entity, through which the skills and assets of each are shared in delivering a service or facility for a public purpose. In addition to sharing resources, the agreement defines how each party shares in the risks and rewards of performing the function and delivering the service or facility.

**RCI** -- Residential Communities Initiative is the Army's military family housing privatization program that complements traditional military construction by leveraging the resources of private-sector partners to provide new and improved homes and family communities on Army installations. RCI's objectives are to eliminate inadequate Army family housing in the US, improve quality of life, and save time and cost.

**RFP** -- Request for Proposal is a traditional procurement method used by both government and business buyers to specify products and services they seek from third-party contractors, vendors and suppliers. In the federal context, RFPs are often long, complex documents with extensive technical details and legal language.

**RFQ** -- Request for Qualifications is a less common procurement method adapted for RCI and related privatization and partnership programs that asks vendors and suppliers to present their vision for a project, document their experience and performance record in comparable projects, financial and management capabilities, and other information, against prescribed evaluation criteria.

**Return on investment (ROI)** -- The interest, dividends, distributions, and capital gains realized from the use and/or operation of an asset, or an investment in real property, over a given period of time, in comparison to the cost of the asset or property.

**Scoring** -- A method used by the federal government to measure the cost of a government activity or an obligation for future expenditure. Scoring determines what cost should be recorded as an obligation when a contract is signed, and how much of an agency's appropriations it must use to meet that obligation. See also Perspective: *Reforming Federal Budgetary Scoring*.

**Stewardship** -- The responsible use of human, financial, and natural resources. In the federal government context, the responsibility to properly utilize and develop federal assets, including people, property, and financial assets.

**Sustainability** -- The capability to achieve continuity and performance over time without depleting the physical, human, and natural resources associated with assets and activities beyond their design lifecycles.

**Sustainable growth rate** -- The rate of increase in size or scale that can be achieved over time without failing to meet required performance criteria.

**Sustainment** -- In the federal context, provision of budgets and other resources to maintain and repair facilities, in accordance with government and industry standards, through their economic and/or physical lives, including preventive maintenance checks and emergency repairs and activities to complement restoration and modernization of related projects.

**VA** -- Department of Veterans Affairs is a government-run military veteran benefit system with Cabinet-level status; it is responsible for administering benefits programs for veterans, their families, and survivors, including medical care, disability compensation, pension, education, home loan, life insurance, vocational rehabilitation, and survivors' and burial benefits.

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## ACKNOWLEDGMENTS

First and foremost, my sincerest thanks go to the Forum participants who dedicated their time *pro bono* and actively engaged in the Forum proceedings. Their wisdom and expertise are the foundation of this report.

I am also grateful to our sponsors; the Forum could not have been held without them. Lee Hamilton, president of the Woodrow Wilson International Center for Scholars, agreed enthusiastically with the overall concept of examining military housing initiatives, provided an institutional home, and offered sage advice at critical junctures. Dr. Michael Van Dusen marshaled the Center's resources to support the project. Lianne Hepler designed the Forum read-ahead and report. And Monica Andrews produced research for the Forum and report.

Richard Rosan, president of the Urban Land Institute, inspired the Forum's format, hosted the meeting, and provided funding and in-kind services. James DeFrancia skillfully chaired the Forum and contributed to its preparation. Maureen McAvey oversaw ULI staff resources and drew on her extensive professional experience. Bill Hudnut offered unique insights about privatization efforts in state and local governments. John McIlwain injected his seasoned judgments on housing. Tamara Washington provided the administrative organization and support upon which such efforts depend.

At Jones Lang LaSalle, thanks go to Dr. Barry Scribner, co-president of its Public Institutions Group, who agreed to fund a substantial portion of the Forum's budget and to contribute his experience as lead consultant to the Army and other agencies. Kim Burke devoted her expert knowledge on federal issues and her ingenious skill in navigating the archives to uncover seminal materials.

I acknowledge and thank the following (listed alphabetically) for their reflections and critiques following the meeting: Valerie Baldwin, Ivan Bolden, Paul Bollinger, Dr. Craig College, Philip Grone, Robert Henke, Cleve Johnson, General "Jack" Keane, Kenneth Krieg, Colonel Brian Lauritzen, Amber Levofsky, Casey Nolan, Dr. Bernard Rostker, Allison Sands, Joseph Sikes, Jeffrey Simon, Steven Sorett, Dr. William Winkenwerder, and David Winstead.

Nancy Gratton deserves special thanks for transcribing many hours of discussions into hundreds of flawless pages of text.

Above all, I recognize the singular contributions of two participants whose dedication and skills were critical to the entire effort. Jean Friedberg was involved in the origin, planning, delivery, and follow-up of the Forum meetings. Throughout, he provided insights on concepts and issues, especially barracks privatization, and rigorous critiques of the materials. He also developed the lifecycle analysis model and projections. Leslie Bell, who has helped me on many publications, developed numerous drafts, undertook part of the research, and deftly organized and synthesized the materials into coherent structures and storylines.

Mahlon Apgar, IV