



# DEPARTMENT OF THE AIR FORCE

WASHINGTON, DC

Office Of The Assistant Secretary

1 FEB 2001

MEMORANDUM FOR AF/ILE

FROM: SAF/FM

SUBJECT: Creation of an Air Force Portfolio Manager for Housing Privatization

At a previous Executive Steering Group (ESG) meeting, SAF/FMC agreed to chair a working group to explore the best approach for handling portfolio management and loan servicing functions for Air Force housing privatization projects. The working group concluded the most logical solution was to designate the Air Force Center for Environmental Excellence (AFCEE) as the portfolio manager. Among the portfolio manager's responsibilities will be to ensure that all necessary loan servicing functions are being performed by DFAS, other external actors (e.g., the various lockbox trustees), or the portfolio manager, as appropriate. The ESG has concurred with this recommendation. Therefore, I request you assign housing privatization portfolio management execution responsibilities to AFCEE.

Only time and experience will allow us to fully develop guidance for a task the Air Force has never performed. However, the attached document provides a starting point for portfolio management policy and guidance. As AFCEE undertakes the mission, the ESG and IPT should work closely with them to further refine the responsibilities and respond to issues that arise.

The ESG realizes that AFCEE may require resources to take on this role. To undertake initial portfolio management responsibilities, additional funding has been budgeted and three new manpower positions have been authorized starting in FY01. If further resources are needed, the ESG will support AFCEE requesting those resources through the normal manpower and budgetary channels.

While housing privatization is a departure from the traditional Air Force business process, I feel confident that we can successfully overcome all challenges that arise as we embark on this new approach to providing quality housing for our military personnel.

A handwritten signature in black ink, appearing to read "James R. Speer", is positioned above the typed name.

JAMES R. SPEER

Acting Assistant Secretary of the Air Force  
(Financial Management and Comptroller)

Attachment:  
Policy and Guidance for Portfolio Management

## Policy and Guidance for Housing Privatization Portfolio Management

**General Scope:** The Air Force portfolio manager (PM) shall assume long-term responsibility for oversight of the Air Force Military Housing Privatization Initiative (MHPI) projects, including monitoring and reporting the status of project requirements and facilitating problem resolution. While the majority of work is inherently non-governmental and can be performed by a portfolio management support contractor, oversight of all functions and decisions regarding problem resolution shall be the sole responsibility of the government PM, as indicated in the subsequent paragraphs. The portfolio management function begins upon project closing and ends upon expiration of all project transactional documents to which the Air Force is a party, including all successive terms as may be negotiated or required by regulation.

**Limits of Authority:** The Portfolio Manager has the authority to fully perform all the roles and responsibilities set out in this Memorandum. In addition, the Portfolio Manager shall have the authority to initiate requests and recommendations for actions by other Air Force or Department of Defense personnel or offices as may be necessary (1) to enforce the terms of the transactional documents, or (2) to take such other actions with regard to such privatized military housing projects as may be in the best interests of the Air Force. The Portfolio Manager shall not have the authority to alter, amend, modify or waive the performance of any obligation or provision contained in any of the transactional documents to which the Air Force is a party, unless such authority is expressly so delegated by separate instrument.

### Roles/Responsibilities

#### 1. Personnel:

- a. **Policy:** The PM has been initially assigned three new manpower authorizations to undertake portfolio management responsibilities. These authorizations should be grouped together, with a single supervisor, in a portfolio management section. The PM shall seek to fill these authorizations with people fully qualified to perform portfolio management functions. The people selected to fill these positions should have extensive knowledge and experience in commercial real estate management, including commercial real estate financial and legal issues. Knowledge of the federal credit accounting and reporting requirements of the Federal Credit Reform Act of 1990 is desirable. Experience in government budgeting, funds management, and accounting systems is complementary to commercial real estate knowledge, not a substitute for it.
- b. The PM is encouraged to cast as wide a net as possible when searching for qualified individuals to fill these positions. If personnel-employment waivers are required to hire the most qualified people, the PM is encouraged to request them. SAF/FMC shall be a participating member on the personnel ranking and selection panels and will support requests for personnel-employment waivers. If, after refining the tasks that must be performed to fulfill PM responsibilities, the PM requires additional authorizations, they are encouraged to request those authorizations through normal manpower channels.

## 2. Documentation:

a. **Policy:** The PM shall maintain a complete set of all documentation for each Military Housing Privatization Initiative project. The major command shall deliver a fully-executed original set of all documentation to the PM at the transaction closing, unless Air Force or Department of Defense regulations, instructions, or policy require that other agencies or offices maintain certain of those original documents. In that event, the major command shall deliver to the PM a photocopy of such fully executed documents. Included with each such document shall be a notation clearly stating: (1) the name of the person and office to which the originals of those documents were delivered, and (2) the location(s) at which such original documents is to be maintained. The majority of the documentation function can be contracted out to a portfolio management support contractor. DoD FMR Volume 12, Chapter 4, *Credit Management*, shall be followed. Organizations in parentheses below are primarily responsible for providing documentation to the PM. The PM will comply with administrative rules of storage/access/disposal in place to maintain the original documentation for the entire term of the transaction, plus any successive terms as may be negotiated or required by regulation.

Depending on the organizations primarily responsible for conducting the competition, scoring estimates as well as the *Program Description and Final Budget Scoring Analysis* (scoring costs to determine loan subsidy amounts) for each project will be accomplished by an AFCEE contractor (e.g., Privatization Support Contractor), the MAJCOM, SAF/FMCE, or OSD(CS&P). The MAJCOM shall send this information to AFCEE and SAF/FMBIC as soon as possible, but no later than the same time it is conveyed to OSD(CS&P).

As soon as planned and formulated, the MAJCOM shall send all information regarding the Direct Loan and Loan Guarantee disbursement schedules, including incremental release dates, to SAF/FMBIC and AFCEE so this information may be included in these organizations' budgeting processes and in planning for funds release. This information ensures accurate funding requests and distribution from OSD.

- b. **Guidance:** Types of documentation requiring maintenance include, but are not limited to:
1. Solicitation or RFP and Successful Offeror's (SO) (i.e., project developer's) proposal (MAJCOM)
  2. Monthly, quarterly and annual reports produced throughout the life of the project (PM, Loan Servicer (LS) and/or DFAS as identified in the DFAS MOA currently under development)
  3. Escrow reports (lock-box trustee or LS) monthly
  4. Delinquency and default reports (LS) monthly when needed
  5. Insurance policies and/or claims (SO)
  6. Borrower and Guaranteed Lender forms (SO)
  7. Project performance data (occupancy, rent calculations, utilities calculations) (SO) monthly and annually as recalculated
  8. Financial statements (SO) quarterly
  9. Budgets (SO) annually

10. Lock-box agreements and transactions (lock-box trustee) when/as utilized
11. All legal, real estate, financial and loan documents from closing (MAJCOM)
12. Project status and performance feedback (MAJCOM) monthly and annually
13. Referral statistics (installation) monthly and annually
14. Guarantee threshold events (MAJCOM) when they occur
15. Subsidy rates (FMCEE) and re-estimates annually
16. Other relevant information such as audits and "watch lists" (as needed)
17. Scoring estimates as well as the *Program Description and Final Budget Scoring Analysis* (scoring costs to determine loan subsidy amounts) for each project must be on hand at AFCEE and SAF/FMBIC to establish the direct loan and loan guarantee accounts as well as for audit. (Privatization Support Contractor, MAJCOM, or SAF/FMCE)

### 3. Monitoring and Evaluating:

- a. **Policy:** The PM (or support contractor) shall monitor all aspects of each housing privatization project throughout the life of the project with the goal of assessing trends, preventing problems from occurring, and resolving minor issues as they arise. As part of this requirement the PM (or support contractor) shall develop objective criteria for evaluating projects quarterly, and when to place projects under a "watch list" indicating that a project should be more closely monitored. Projects on the "watch list" shall be monitored monthly, as a minimum.
- b. **Guidance:** The PM (or support contractor) will rely primarily on the documented information sources listed above and contemporary commercial and professional practices. The PM (or support contractor) should also conduct on-site visits of each project (including meetings with the commercial lender(s), installation team, MAJCOM representative, Project Developer, and lock-box trustee) as frequently as it determines to be appropriate. However, such visits shall be no less frequently than annually. The items that the PM shall monitor shall include, but are not limited to, the following:
  1. Repayment of debt (including construction and permanent financing)
  2. Deposits/Withdrawal/Balance of all escrow and other accounts associated with the project
  3. Insurance requirements and satisfactory coverage
  4. Vacancy rates, occupant surveys and unsolicited tenant feedback
  5. Casualty and other losses
  6. Physical property inspections for general condition of collateral
  7. Compliance with local, state and federal code, proposal, lease, covenants, etc.
  8. Corporate financial statements
  9. Project financial statements - including approval of annual budgets, gross rent, utility consumption and allowances, projected changes in rents or allowances, etc.
  10. Development of any guarantee threshold events
  11. Management Review Committee minutes/feedback

#### 4. Reports:

- a. **Policy:** The PM (or support contractor) shall maintain the central repository of project reports from all functions related to the privatization projects. In addition, the PM (or support contractor) will be the primary report generator, monitoring the overall health of the projects. As such primary report generator, the PM shall prescribe to all organizations supplying required information and data the form and format in which the required information and data shall be transmitted to PM. Organizations supplying required information and data include, but are not limited to, the installation, major command, project developer, and PM support contractor.

Quarterly, the PM (or support contractor) will evaluate the overall performance of each project developer, including financial and loan information from the LS (pertinent information will be included in the DFAS MOA currently under development). After retaining a copy for the record, the PM (inherently governmental function) shall submit respective reports to the project developers, the installations concerned, and MAJCOMs concerned, and all reports to USAF/ILE, SAF/FMB and SAF/FMC. In addition, a comparative evaluation will be made among projects and submitted to all the MAJCOMs, USAF/ILE, SAF/MII, SAF/GCN, SAF/FMB, and SAF/FMC. Annually, the PM (or support contractor) shall provide a detailed, cumulative report and the PM (inherently governmental function) shall submit a cumulative report to the same organizations. The PM (or support contractor) will also be tasked to accomplish, or provide support for the accomplishment of, all other reports required under the Military Housing Privatization Initiative legislation; the Debt Collection Improvement Act; OMB Circular A-129; DoD FMR Volume 12, Chapter 4; or inquiries from the Air Staff (reference the OSD Program Evaluation Plan).

1. Receivables due from public
2. Loan subsidy and guarantee

- b. **Guidance:** Each evaluation will be based upon performance in at least three key areas: financial performance, customer satisfaction, and occupancy rates. A fourth area, property condition and maintenance, should also be included in evaluations if consistently meaningful metrics can be devised. Overall evaluations can be as simple as *green, yellow, or red*, corresponding to *good, marginal, or deficient*, and should include a running 3-5 year projected performance using trends identified from reports of the previous 3-5 years.

#### 5. Problem Resolution:

- a. **Policy:** Providing assistance in problem prevention and resolution is a critical function of the PM. When and if requested by the installation, MAJCOM, or Air Staff, the PM (inherently governmental function) shall work with the project developer, DFAS, contractors, installation, MAJCOM, USAF/ILE, SAF/FMB and SAF/FMC to resolve any problems.

- b. **Guidance:** The intent will be for the installation team to solve problems at the lowest level possible and only elevate those issues that require policy and/or guidance or are of a serious nature (e.g., potential default and/or other legal action). For example, the PM may be called upon to work with the project developer during periods of financial distress. In all cases, the monthly, quarterly and annual reports will summarize all actions taken and make recommendations as necessary.

#### 6. Loan Servicing:

- a. **Policy:** Funds management and associated fiduciary responsibility for privatization funds resides with the AFCEE director. The loan servicer (LS) (i.e., DFAS) for direct loans and loan guarantees shall work with the project developer, the private lender (if any), the lock-box trustee, PM, OSD(C), SAF/FMB and SAF/FMC to ensure that all government loans and guarantees are being adequately serviced in accordance with the DFAS MOA (currently under development). At a minimum they will ensure that the loan servicing requirements listed in OMB Circular A-129 and DoD FMR Volume 12, Chapter 4, *Credit Management*, are being accomplished.
- b. **Guidance:** The LS for private loans with no government guarantees shall provide appropriate documentation and assessments quarterly and annually to fulfill the monitoring requirements of the PM and to assist the PM in predicting potential downward trends in performance. Any problems with loan repayment or reporting will be reported to the PM and the credit reporting agencies identified in the Federal Credit Reform Act (FCRA) of 1990 and in Office of Management and Budget (OMB) directives.