



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-3000

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MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY  
(INSTALLATIONS AND HOUSING), OASA(IL&E)  
DEPUTY ASSISTANT SECRETARY OF THE NAVY  
(INSTALLATIONS AND FACILITIES), OASN(I&E)  
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE  
(INSTALLATIONS), SAF/MII

SUBJECT: Treatment of Property Taxes in Housing Privatization Proposals

At the industry forums conducted by each of the Services, there has been a consistent request from the private sector to tell bidders how to treat property taxes in their proposals. Because property taxes have a significant impact on the potential scope of MHPI projects, we need to establish a reasonable and uniform method for considering the impact of property taxes when evaluating proposals submitted in response to our RFPs. The following policy is provided to minimize property tax impact on our privatization projects, while, at the same time, protecting the government's interests.

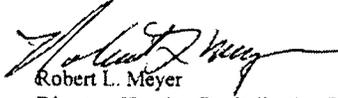
Military Departments should establish contact with the State and local tax authorities as early as possible seeking to obtain favorable property tax treatment for a specified project. Any binding agreements should be made available to prospective offerors at the pre-bidders conference. Even if binding agreements are not reached, tax authorities should be requested to prepare a letter outlining the tax treatment of the project. This letter, which should be addressed to offerors as opposed to DoD, should be made available to the bidders along with any other documents that would have a bearing on a proposal. Under no circumstances should this letter be represented as an official position on the subject of property taxes by the Federal Government.

The RFP must make clear that the tax consequences of any proposal is the sole responsibility of the offeror. The following language is recommended for inclusion in the RFP:

"The Contractor will be responsible for the payment of any real estate taxes assessed on the project. In the absence of clear written direction from state and local tax authorities that property taxes are not applicable, or are reduced, [Offeror]'s proposal shall assume that property taxes will be assessed on the project and include such costs in its financial projections. The [Offeror]'s proposal shall also include a plan for use of any savings realized from an exemption from or an abatement of property taxes on the project, or a failure or inability of the local taxing authority to assess property taxes on the project. The [Service] will favor proposals which dedicate any such savings to enhancement or expansion of the project or which otherwise provide the benefit to the Government."



Since property taxes have a significant impact on potential project cash flows, they must be considered when formulating the project concept. Sensitivity analyses which assesses the impact of worst case tax scenarios will be run by the Housing Revitalization Support Office using financial feasibility pro formas. Unless the jurisdictions involved clearly exempt any improvements on the military installation from property taxes, a project scope that renders the project financially unfeasible when property taxes are included will not be approved.



Robert L. Meyer  
Director, Housing Revitalization Support  
Office