



DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC

02 DEC 2003

Office of the Assistant Secretary

MEMORANDUM FOR ALMAJCOM/CE

FROM: SAF/IEI  
1665 Air Force Pentagon  
Washington, DC 20330-1665

SUBJECT: Use of Windfall Profit During Housing Privatization Development Phase

Windfall profit, defined by draft AFI 32-6007, *AF Privatized Housing*, is an account generated by the gross income solely attributable to BAH increases created by the Cohen Initiative in the National Defense Authorization Act of 2001 (P. L. 106-398) to eliminate service members' out-of-pocket expenses by 2005. Current AF practice for windfall profit is to capture the increase in a separate account from the transaction's lockbox arrangement. During the initial development phase, these funds are diverted directly to the transactions reinvestment account for funding future requirements, quality of life upgrades, etc. Once the initial development is complete, the funds are used to pay down the government direct loan and/or loan guarantee. Once that obligation is completed, the funds are rediverted to the reinvestment account for the remainder of the transaction.

After reviewing this policy, we have determined that a better use of the funds during the development years of the project (from award through completion of initial construction and renovations) would be to inject them directly into the project rather than into the reinvestment account. The development years of the project are the years least likely to need additional reinvestment funds, but in the greatest need of all available funding. The additional cash infusion would increase the net operating income (NOI) during development, reduce the amount of the construction loan required, and would ultimately reduce the amount of permanent financing (government and private). That, in turn, would reduce the amount of scoring required and would reduce the amount of future cash flow required to pay debt service. Ultimately, this results in increased reinvestment account deposits in the latter stages of the project when they are needed most.

We encourage you to implement this approach, if possible, in all present and future projects, as long as implementation does not adversely affect the acquisition schedule.

FRED W. KUHN  
Deputy Assistant Secretary of the Air Force  
(Installations)

cc:  
AFCEE/CC



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

9 OCT 2002

MEMORANDUM FOR CHIEF, HOUSING DIVISION, AF/ILEH

SUBJECT: Recouping Revenue from Housing Privatization Projects Derived from the DOD Initiative to Increase Housing Allowances (Your Memo, Undated)

We have not issued policy mandating any particular method of recouping project revenues attributable to the initiative to increase housing allowances. However, we have indicated that the Services should institute mechanisms in their deal structures to recoup, to the extent possible, those increased project revenues. We have also not stated that the additional revenue generated must be returned directly to the government. Allowing such revenues to flow through the lockbox waterfall into the reinvestment account for increased or accelerated housing construction is an acceptable means of recapturing the revenue.

In terms of the economic analysis, we have issued policy stating that the increased allowances attributable to the initiative must be included as a cost in the privatization alternative, and that expected returns to the government from the initiative must also be included in that alternative. If the enhanced revenues flow into the reinvestment account to be used for increased or accelerated construction scope, those enhancements should be reflected in the construction scope for the Milcon alternative.

The Air Force's Requests for Proposals appear to be in accordance with the guidance above.

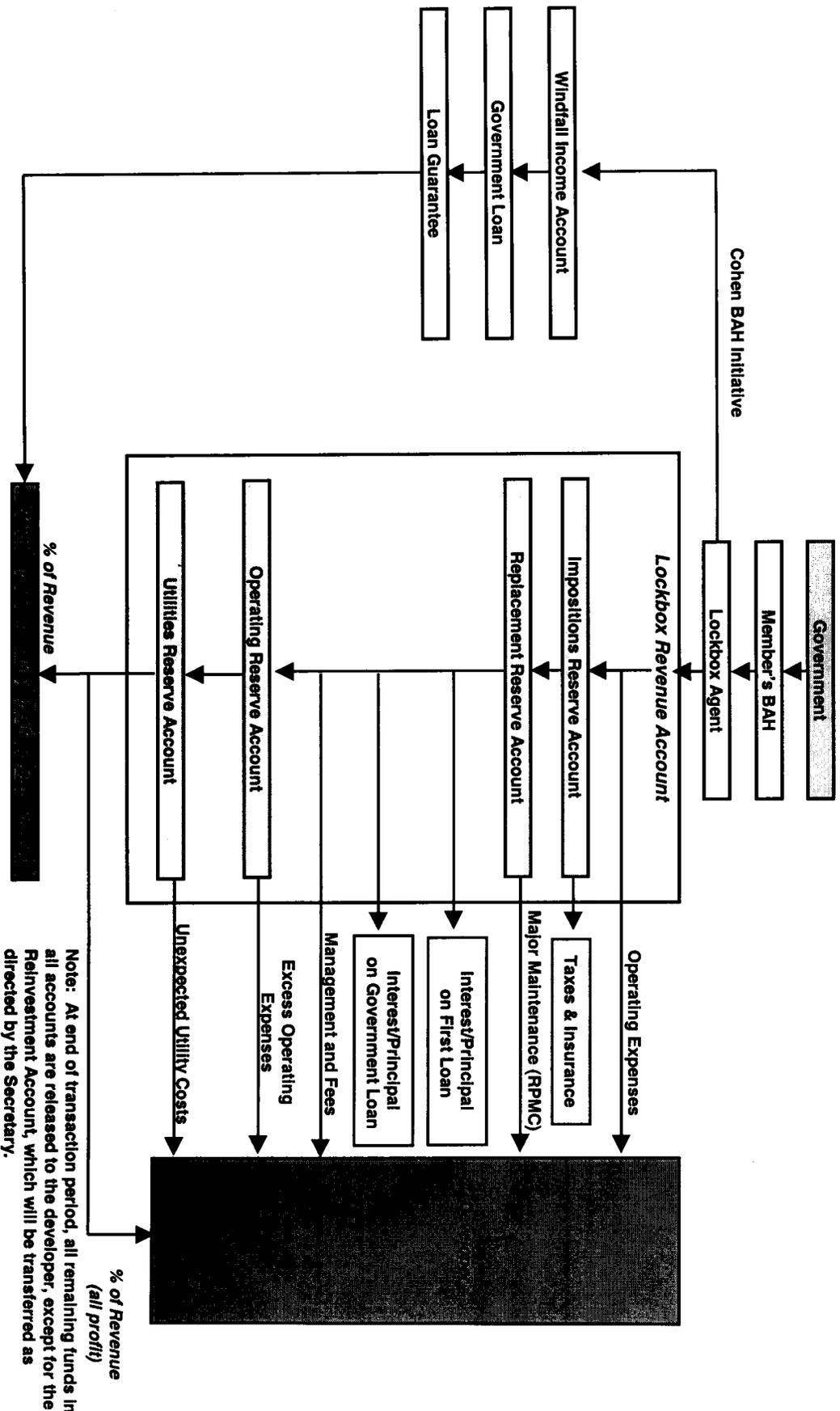
Joseph K. Sikes  
Director, Competitive Sourcing  
and Privatization





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# Current Lockbox Agreement (Waterfall Distribution)



Note: At end of transaction period, all remaining funds in all accounts are released to the developer, except for the Reinvestment Account, which will be transferred as directed by the Secretary.

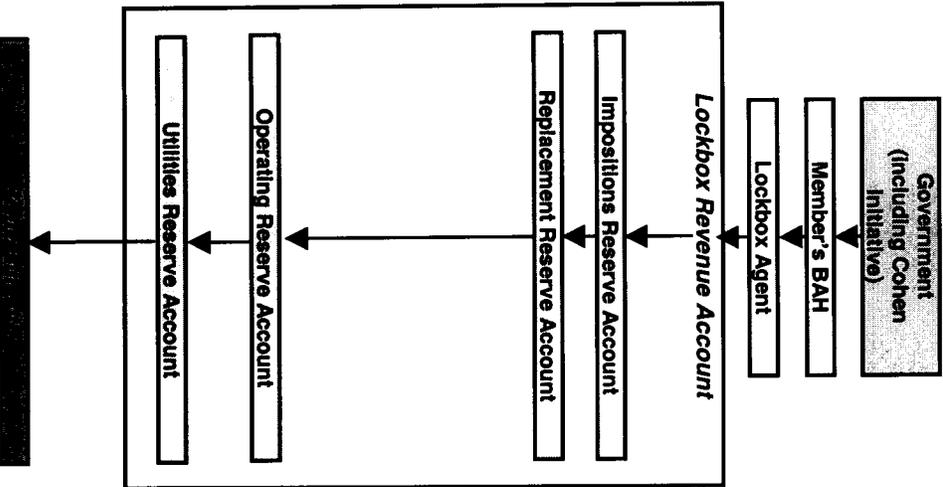
*Integrity - Service - Excellence*



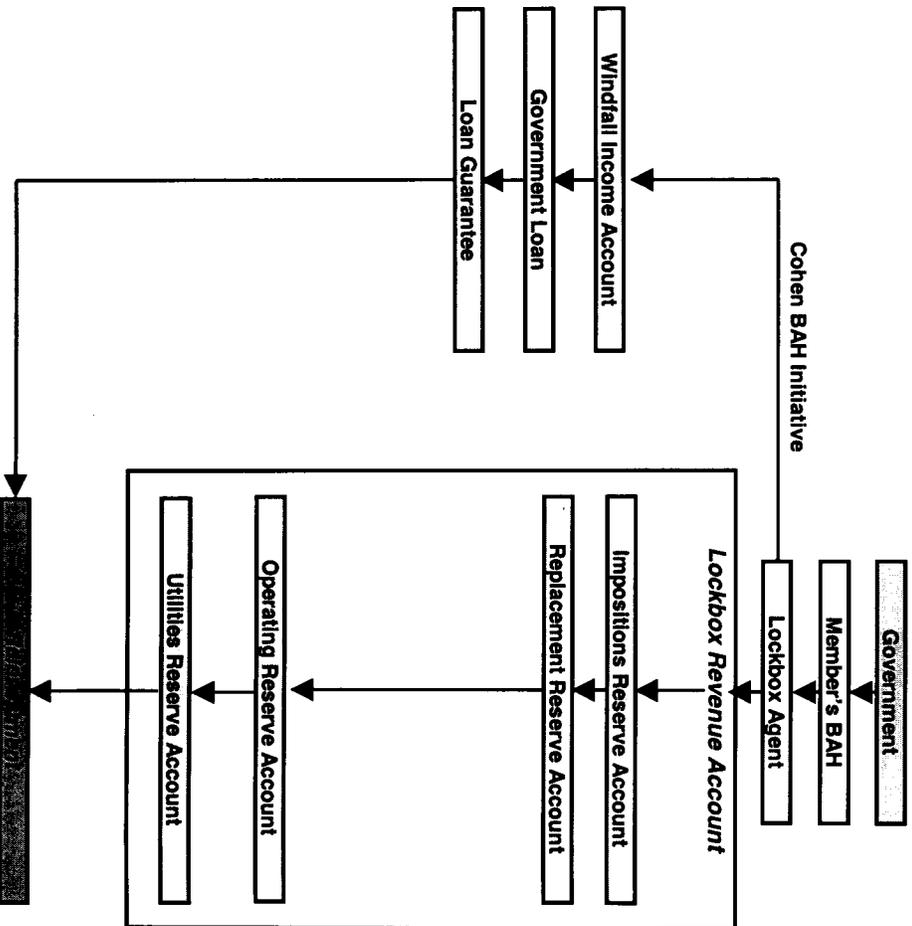
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# Proposed Lockbox Agreement (Waterfall Distribution)

During Initial Development



After Initial Development



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