OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

August 22, 2005

Mr. Frank Cirillo
Director, Review and Analysis
Defense Base Closure and Realignment Commission
2521 South Clark Street, Suite 600
Arlington, Virginia 22202

Dear Mr. Cirillo:

We are pleased to submit to the Defense Base Closure and Realignment Commission responses to your question – designated as BAM #63.

If you have any questions please call me at (703) 607-3207.

Sincerely,

J K Sikes

Joseph K. Sikes
Director, Housing and Competitive
Sourcing

Attachment

cc: Mr. Robert Meyer

63. With regard to the Navy Northeast Project Family Housing Project, what was the estimated fair market value (FMV) of the 8 properties conveyed in fee of the improvements, structure, easements and appurtenances to the private developer in November 2004? Can this amount be disaggregated for Brunswick, Portsmouth and New London? Were improvements to those three properties, if any, made subsequent to this transfer funded in whole by bond proceeds, or did the Navy make any cash, equitable to other contribution to making such improvements? If these properties are closed under the BRAC process, will the Navy withdraw from the partnership? Assuming that the Navy wishes to withdraw from the partnership for any reason, what is the FMV of liquidating the Navy's partnership interest in the LLC, and what is the basis of that calculation?"

In accordance with 10 USC 2875, the value of contributed assets is not the fair market value, but, rather, the "book value," i.e., the depreciated value of the housing recognized by the IRS. The value for all assets for all locations included in the Navy's Northeast regional project is approximately $285 million. The values for the three locations identified are as follows:

Brunswick: $42.3M
Portsmouth: $ 4.4M
New London: $63.5M

Any construction during the initial development period is funded entirely by bond proceeds. There is no separate Navy contribution, cash or otherwise.

The military housing privatization authorities do not require that the Navy liquidate its interest in the private partnership if an installation, for which supporting privatized housing has been acquired, is subsequently affected by BRAC. It is important to note that the Navy's Northeast regional housing privatization project includes locations that would not see a reduction in personnel as a result of the BRAC recommendations. Nevertheless, if a decision was made to liquidate the partnership, the project agreements provide for early dissolution of the partnership following lender approval and satisfaction of outstanding debts. There would be no cost to the Navy associated with liquidation of the partnership.

In lieu of dissolving the company, the managing member may acquire the Navy's interest for a purchase price determined by an appraisal process based upon fair market value.