

Minutes of JPAT Working Group meeting, 16 October 2003.**Topic: Net Present Value (NPV), Return on Investment (ROI), Fair Market Value, and Leases**

1. Attendance

a. The following members attended the meeting:

John Desiderio	OSD BRAC
Harold Schliesske	DDR&E
Marshad Shah	DDR&E
Art Levesque	R&K Engineering
John Dovich	R&K Engineering
Jack Francisco	DLA / JCSG S&S
Thadd Buzan	R&K DUSD (I&E)
Paul Freund	AF BRAC
Omer Alper	Navy BRAC
Jerry Shiplett	JCSG HSA
Alex Yellin	OSD BRAC
Surinder Sharma	DoD HA / TMA
David Clark	R&K / TMA
Richard Snow	SAF / IEBS

b. The following were at the meeting as observers:

Marcia L. Kilby	OIG DoD
Dharam Jain	OIG DoD
Rich Gladhill	AAA
Donna Horvath	AAA
Tom Mahalek	GAO
Charles Perdue	GAO

c. The following groups did not send a representative:

JCSG E&T
 JCSG Intel
 JCSG Industrial
 JCSG Tech

2. Opening Remarks. MAJ Smith stated that the topic of next week's JPAT working group meeting would be Environmental Issues. He also stated that that a special session on medical and TriCare modeling in COBRA will be held on 22 October at 0900 in the TABS conference room in Rosslyn. The meeting then moved to Agenda Item #1.

3. Agenda Item #1. Net Present Value

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a. Net Present Value (NPV).

1. Based on the Guidance from OMB Circular A-94, COBRA will use the average of the 10 year real discount rate and the 30 year real discount rate. These rates are found in Appendix C of Circular A-94. The next update of OMB Circular A-94 is expected in February 2004. There will not be another update until February 2005 and the BRAC report is due from OSD to Congress in May 2005. Therefore, the JPAT agreed that the rates in the February 2004 OMB Circular A-94 number would be used in the COBRA analyses used in the report. GAO expressed concern about using 2005 data when it becomes available for final COBRA analysis. It was agreed that if there is a significant change in the real discount rate in 2005, then the COBRA standard factors file can be updated and the COBRA scenarios can be rerun. The policy makers will decide if the COBRA runs need to be updated.

2. OMB Circular A-94 states that when using the real discount rate for analysis, there is no need to use an inflation rate to determine a future year value that will then be discounted back to the base year value. Since COBRA will use the real discount rate, there is no need for the inflation rate in the NPV algorithm in the model. Therefore the JPAT agreed to remove the inflation rate from the NPV algorithm.

4. Agenda Item #2. Changing Return on Investment (ROI) Year to Payback Year. The current COBRA program uses the term Return on Investment (ROI) incorrectly. ROI is defined, as a measure of the net income an organization is able to earn with its total assets. Return on investment is calculated by dividing net profits after taxes by total assets. A more appropriate term for the year when the NPV becomes less than zero is Payback Year. Therefore, the JPAT agreed to change ROI to Payback Year.

5. Agenda Item #3. Fair Market Value for Land Sales.

a. Fair Market Value (FMV) of potential land sales is difficult because the future use of the land is not known and there will not be a known appraisal value. Also, during past BRAC rounds, some land transfers did not result in FMV gains by the Services. Therefore, the JPAT agreed that savings realized from land sales should not be included in COBRA analysis. The JPAT also agreed to remove the land purchase / sales line from Screen Five.

b. The JPAT agreed that some scenarios could include a land purchase. Any land purchase is entered in Screen Five as a unique one-time cost.

5. Agenda Item #4. Leases.

a. The JPAT agreed that leased facilities will be treated like any other facility in Screen Four - Base Information. Some of the data cells will be zero, but it is

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possible for a leased facility to have some of the costs of a normal installation, such as BOS and communications cost.

b. The JPAT agreed that in the data call leased facilities would be required to answer the following questions:

1. What are the terms of your present lease? Length? Rent? Utility payment agreement?

2. When does your lease expire?

3. What is the current market rate for the rent of your leased space?

c. The JPAT agreed to the following requirements with respect to closing a leased facility:

1. The analyst must capture the one-time and recurring costs and savings and enter them into COBRA. One-time costs could be restoration fees or early termination fees. Recurring savings are those captured in the rent after the BRAC action is complete. Even if a lease has expired, recurring savings still need to be calculated out to the sixth year of the BRAC scenario. The recurring savings after lease expiration will be determined using the market rate for the rent of the leased facility.

2. The analyst must consider the effect on other non-DoD government agencies when a DoD tenant leaves a leased facility. For instance, if the activity is renting space through GSA and leaves before the lease is up, how much will it cost GSA to rent the space?

c. The JPAT agreed that force protection must be considered for leased facilities. Force protection standards must be met by FY09. These costs need to be considered for an activity that stays in leased facilities. These could be potential one-time or recurring costs. If a leased facility can not be upgraded to required standards an activity may have to leave the leased facility for this reason.

6. Non-Agenda Item. User's Manual and Checklist. R&K Engineering will begin work on the COBRA User's Manual. They will also create a checklist for the COBRA user and a template for the scenario analyst. The checklist and the template will help the user and the analyst collect and correctly enter COBRA data.

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7. Old Due Outs:

a. R&K Engineering

1) Tasked to determine a value for the site preparation standard factor that can be certified. **Still Working**

2) Tasked to find out whether or not there are facility conversion cost factors. Research uncovered that RPLANS does not provide a good method. **Further discussion during S/RM session.**

b. The Services owe a comment on the new BOS algorithm or a supportable alternative. **Services need more time.**

8. New Due Outs. None identified.

9. Policy Issues.

a. COBRA Rehabilitation Cost Factor. The current proposal is that a standard factor of .47 be used for this factor. The Services must make a policy decision addressing whether current facility condition assessments are such that this factor correctly captures rehabilitation requirements for COBRA

b. A policy decision is required to address the issue of whether “get well” costs (facilities quantity and quality) will be treated as BRAC costs in COBRA.

10. Schedule

AUG 7	Construction	Completed
AUG 14	Civilian/Military Pay	Completed
AUG 21	Privatization/Leases	Completed
AUG 28	Transportation Relocation	Completed
SEP 4	Industrial Base	Completed
SEP 11	SRM	Completed
SEP 18	Information Technology	Completed
SEP 25	Special Instructions Catch-Up	Completed
OCT 2	RC Issues (+) tenants	Completed
OCT 9	BOS	Completed
OCT 16	NPV/ ROI / FMV / Leases	Completed
OCT 23	Environment	Read-Ahead due 17 OCT
OCT 30	Medical and TriCare	
NOV 6	S/RM revisited	
NOV 13	Standard Factors	

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