

JPAT Members,

On 8 OCT 03, JPAT members from the Services held a special session meeting on NPV / ROI / FMV / Leases. The meeting was attended by the following:

Jack Leather	DASN (ISA)
Tom Mahalek	GAO
Paul Freund	AF BRAC
Omer Alper	Navy BRAC
Frank Sosa	AF BRAC
John Desiderio	OSD BRAC
Alex Yellin	OSD BRAC
Art Levesque	R&K

## RESULTS:

- 1. Issue #1 - Remove Inflation NPV rate from NPV equation.** Since BRAC 88, there has always been an inflation rate and a discount rate in the Net Present Value (NPV) equation. This allowed the user to use either the nominal discount rate or the real discount rate. According to OMB Circular A-94, analyses that involve constant dollar cost should use the real Treasury borrowing rate on marketable securities of comparable maturity to the period of analysis. A real discount rate has been adjusted to eliminate the effect of expected inflation, so if we use the real discount rate, we no longer need an inflation rate. Therefore, we recommend removing the inflation rate from the NPV equation.
- 2. Issue #2 - We agreed that we should use the real discount rate published in January '04**  
- The real discount rates are published in OMB Circular A-94, Appendix C. The next update is due in January of 2004. There will not be another update until January 2005, long after the Services do their COBRA runs, but before the BRAC Commission meets. GAO noted that in prior rounds the discount rate has changed, but reported no appreciable difference in most cases for the 1995 COBRA estimates. Therefore, we feel confident in using the January 2004 rate.
- 3. Issue #3 - Change Return on Investment (ROI) to Payback Year.** The current COBRA programs 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 where the NPV is less than zero and the previous year's NPV was greater than or equal to zero is Payback Year.
- 4. Issue #4 - COBRA will not account for the selling of land.** COBRA will not attempt to estimate the fair market value (FMV) of potential land purchases. Estimating FMV is difficult. Reuse plans or potential property zoning is difficult to predict. We recommend removing the Land Purchase line in Screen Five.
- 5. Issue #5 - Leases.** A leased installation is treated just like any other installation. It will have zero values when it comes to SRM, BOS, and family housing in Screen Four - Base Information (Static). Lease rents and utility costs are entered as recurring savings. These recurring savings should be entered for every year after the realignment. The beyond years will use the year six value, 2011. There could be a one-time costs associated with lease termination.
- 6. Issue #6 - Appropriation Detail Report is changed to the Realignment Detail Report.**

## THE ARMY BASING STUDY (TABS) GROUP

On 16 OCT 03, the entire JPAT will have a meeting on NPV / ROI / FMV / Leases.

David A. Smith  
MAJ, ISCF 49  
ORSA Analyst  
TABS  
(703) 696-9778  
David.Smith5@hqda.army.mil