Audit Report

OFFICE OF THE INSPECTOR GENERAL

HOUSING MARKET ANALYSIS AT PETERSON AIR FORCE BASE, COLORADO

Report No. 97-075

January 17, 1997

Department of Defense

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Acronyms

AFB	Air Force Base
BAQ	Basic Allowance for Quarters
VHA	Variable Housing Allowance

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

January 17, 1997

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Housing Market Analysis at Peterson Air Force Base, Colorado
(Report No. 97-075)

We are providing this audit report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

Air Force comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. The Army concurred with Recommendation 2. but did not provide an effective date for the Army's planned actions. DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. Therefore, we request that the Army provide additional comments on Recommendation 2. by March 18, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Wayne K. Million, Audit Program Director, at (703) 604-9312 (DSN 664-9312) or Mr. Nicholas E. Como, Audit Project Manager, at (703) 604-9215 (DSN 664-9215). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-075
(Project No. 5CG-5048.02)

January 17, 1997

Housing Market Analysis at Peterson Air Force Base, Colorado

Executive Summary

Introduction. A housing market analysis determines the ability of on-base and off-base family housing assets to meet the family housing needs of military personnel. Peterson Air Force Base completed a housing market analysis in April 1995 that showed a projected deficit of 202 family housing units. The Director of Housing, U.S. Air Force, then directed several Air Force installations, including Peterson Air Force Base, to contract for an alternative housing market analysis. The Peterson Air Force Base alternative analysis was completed in October 1995 and projected a family housing deficit of 278 units in FY 1999.

Audit Objectives. The overall audit objective was to evaluate whether family housing requirements support the need for constructing DoD family housing. Another announced audit objective was to review the adequacy of the management control program applicable to the overall objective. This report is limited to our review of the Peterson Air Force Base housing market analysis. Our review of the management control program applicable to the family housing requirements determination process of all the Military Services will be addressed in a separate report.

Audit Results. The Peterson Air Force Base Housing Office adopted, as official, a housing market analysis in which maximum acceptable monthly family housing costs, what a military family is expected to be able to afford to pay for housing each month, were $107 to $315 lower per month than those required by DoD guidance. Consequently, the projected 1999 family housing deficit of 278 units may be incorrect, and possible future family housing construction programs for not only Peterson Air Force Base, but also Fort Carson, Colorado, and the Air Force Academy, Colorado Springs, Colorado, could be based on erroneous data. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that Peterson Air Force Base adopt the April 1995 housing market analysis, which followed DoD criteria for determining maximum acceptable monthly housing cost, as the official analysis to be used for family housing management decisions. We also recommend that Peterson Air Force Base, Fort Carson, and the Air Force Academy develop procedures for regular coordination of family housing requirements data between the three installations.

Management Comments. Comments from the Air Force and the Army were considered in preparing the final report. The Air Force concurred with recommendations to adopt the Peterson Air Force Base housing market analysis of April 1995 as the official analysis and to develop procedures to coordinate results of housing market analyses with the other local installations. The Army concurred with the recommendation for Fort Carson to coordinate family housing requirements data with the other local installations but did not provide a completion date for planned actions. See Part I for a discussion of management comments and Part III for the complete text of management comments.

Audit Response. Air Force comments were responsive and no additional Air Force comments are required. Army comments were responsive to audit recommendations but did not include a completion date for planned actions. Therefore, we request that the Army provide comments on a completion date by March 18, 1997.

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Part I - Audit Results

Audit Background

Housing Market Analysis. A housing market analysis (market analysis) demonstrates the ability of on-base and off-base family housing assets to meet the family housing needs of military personnel. Peterson Air Force Base (AFB), Colorado, completed a market analysis in April 1995 that projected a family housing deficit of 202 units. The Director of Housing, U.S. Air Force, then directed several Air Force installations, including Peterson AFB, to contract for an alternative market analysis. The alternative Peterson AFB market analysis was completed in October 1995. The October 1995 market analysis projected a family housing deficit of 278 units in FY 1999. We reviewed the February 1995 draft market analysis, the April 1995 market analysis, and the October 1995 market analysis for Peterson AFB, as well as other market analyses for other Army and Air Force installations in the Colorado Springs, Colorado, area.

Policy Guidance. DoD Manual 4165.63-M, "DoD Housing Management," September 1993, (the DoD Housing Manual) establishes policy guidance, procedures, and responsibilities on all matters associated with family housing. The DoD Housing Manual states that, "Communities near the installation are relied on as the primary source of family housing for DoD personnel." Military family housing may be programmed to meet long-range requirements in areas where the local community cannot support the family housing needs of military personnel. The installation commander is responsible for planning and programming for the acquisition of family housing.

Audit Objectives

The overall audit objective was to evaluate whether family housing requirements support the need for constructing DoD family housing. A specific objective was to determine whether family housing requirements developed by the Military Departments were properly supported and identified in an economical manner. Another announced audit objective was to review the management control program as it applied to the overall objective. We did not review the Peterson AFB management control program applicable to the other audit objective because we limited our review primarily to the Peterson AFB market analyses. See Appendix A for a discussion of the scope and methodology and Appendix B for a discussion of prior audits related to the audit objectives.

Family Housing Requirements

The housing market analysis for Peterson AFB used the maximum acceptable monthly housing costs that were significantly lower than those mandated by DoD regulation. The condition existed because the Peterson AFB Housing Office accepted, as official, an analysis that used unofficial, alternative methods to compute acceptable monthly housing costs. As a result, the projected 1999 family housing deficit of 278 units may be incorrect, and possible future family housing construction programs for not only Peterson AFB, but also Fort Carson, Colorado, and the Air Force Academy, Colorado Springs, Colorado, could be based on erroneous data.

Family Housing Documentation

The DoD Housing Manual requires a DD Form 1523, "Military Family Housing Justification," to support family housing construction and acquisition programs submitted to the Office of the Secretary of Defense and Congress. The DD Form 1523 provides a tabular analysis of the family housing deficit by comparing the effective family housing requirement to existing family housing assets based on current and future military needs and family housing market conditions. Future military needs and family housing market conditions are projected 5 years out. The DD Form 1523 is based on the results of the market analysis. According to the "Air Force Housing Market Analysis Guidance Manual," October 1993, a market analysis is used to determine the ability of a housing market area to meet the current and projected family housing requirements for military personnel authorized at an installation. The market analysis considers Government-owned and privately-owned family housing in the market area and estimates the family housing surplus or deficit for current and future years. A resulting deficit may be used to support family housing construction or renovation projects.

Housing Affordability at Peterson AFB

The DoD Housing Manual states that for programming or acquisition decisions, the maximum acceptable monthly housing cost (maximum cost) equals basic allowance for quarters (BAQ), plus variable housing allowance (VHA), plus maximum out-of-pocket cost (50 percent of BAQ). That computation is used in the market analysis to determine a monthly amount that a military member can afford to spend for family housing in the private sector. The market analysis segregates suitable family housing by number of available bedrooms and monthly costs. A military fair share of suitable family housing is determined based on military demand compared to total demand, and military members are matched to family housing units meeting their affordability and bedroom requirements.

Peterson AFB had a market analysis based on the correct methodology, but it chose to use an alternative analysis. The previous market analysis, prepared by a contractor in April 1995, used the DoD-mandated maximum cost calculations and projected a net deficit of 202 family housing units. In May 1995, the Director of Housing, U.S. Air Force, requested seven Air Force bases, including Peterson AFB, to have their consultants prepare new market analyses based on a lower maximum cost. The objective was to determine the effect of a lower maximum cost on the market analysis. The results would be used as a basis for the Air Force to initiate discussions with the Office of the Secretary of Defense on revising the maximum cost formula to more accurately reflect what military personnel could afford. Air Force Space Command and the Peterson AFB Housing Office selected the alternative market analysis, which projected a deficit of 278 units, as the final analysis. They believed that the higher family housing deficit more accurately presented Peterson AFB family housing needs.

The alternative computation method requested by the Director of Housing, U.S. Air Force, was BAQ plus VHA, plus 15 percent of that sum. As a result, 1994 maximum cost levels for each pay grade were from $107 to $315 lower than they would be using the official formula, as illustrated in the table below. Maximum cost levels projected to 1999, based on 1994 levels, would be similarly understated.

Maximum Affordable Monthly Housing Cost

Pay Grade	October 1995 Analysis Maximum Cost[1]	DoD Maximum Cost[2]	Under-Stated[3]
O-7+	$1034	$1349	$315
O-6	937	1220	283
O-5	979	1241	262
O-4	873	1103	230
O-3	739	927	188
O-2	631	792	161
O-1	581	722	141
E-9	704	904	200
E-8	690	871	181
E-7	656	821	165
E-6	610	761	151
E-5	539	678	139
E-4	455	577	122
E-3	411	525	114
E-2	402	510	108
E-1	406	513	107

[1]Maximum cost based on formula in analysis: (BAQ + VHA) x 1.15.
[2]Maximum cost based on DoD criteria: BAQ + VHA + 50 percent of BAQ.
[3]Understatement in current analysis: DoD less analysis maximum cost.

Air Force Housing Responsibilities

The DoD Housing Management Manual assigns the installation family housing office the responsibility for "planning, programming, and budgeting for the acquisition, replacement, improvement, operation, maintenance, repair, and leasing of family housing." The Air Force Housing Market Analysis Guidance Manual, October 1993,* states that the base housing office will directly participate in the execution and review of the market analysis. At Peterson AFB, those responsibilities are held at the command level by the Housing Office, Air Force Space Command, and at base level by the Housing Management Office, Peterson AFB. Those offices have the responsibility of making sure the final market analysis meets DoD criteria.

Possible Family Housing Construction

As of September 1996, there is no planned or programmed family housing construction for Peterson AFB. However, the deficit of 278 units presented in the market analysis and accompanying DD Form 1523 could be used as a basis for future construction. The DoD Housing Manual states that, in geographic areas with multiple military installations, market analyses shall be coordinated among the installations, or market analyses will be jointly prepared under one Service. If coordination of market analyses takes place in the Colorado Springs, Colorado, area, other military installations in the area, such as Fort Carson and the Air Force Academy, could use the computed Peterson AFB deficit as additional justification for constructing their own family housing. The Peterson AFB housing market area contains both Fort Carson and the Air Force Academy. See Appendix C for the relative proximity of Peterson AFB, Fort Carson, and the Air Force Academy.

Market analyses were not coordinated between Peterson AFB and Fort Carson. The respective base housing managers cited differences in mission as a reason for performing separate market analyses. However, during 1996 and 1997, Fort Carson is attempting to justify construction of 840 new family housing units. Fort Carson is also trying to privatize its family housing, but Peterson AFB has no such plans at this time. Although Peterson AFB and the Air Force Academy coordinate their family housing programs and have cooperated in market analyses in the past, the Air Force Academy decided against a combined market analysis in 1995. While they may not agree to perform a joint market analysis, the three installations should regularly discuss and share information on each installation's family housing requirements and the local housing market. The addition of 840 new family housing units by the Army would make a significant difference in the local housing market by reducing the number of Army families living on the economy, and that difference may have a significant effect on the need for only 202, or even 278, new Air Force family housing units.

*Revised May 1995.

Status of Housing Affordability Level Analysis

In July 1996, we discussed our results with Civil Engineering, U.S. Air Force, and with the Housing Office, Air Force Space Command. Both agreed with our analysis but did not offer corrective action at that time. Therefore, we are recommending that the Commander, Peterson AFB, redesignate the original market analysis as the final analysis.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of additional information provided by the Air Force after the draft report was issued, we revised draft Recommendation 1.a. to redesignate the April 1995 housing market analysis, which is the final version of the February 1995 housing market analysis recommended in the draft report.

1. We recommend that the Commander, Peterson Air Force Base:

a. Redesignate the April 1995 housing market analysis as the final market analysis for Peterson Air Force Base.

b. Develop procedures for regular coordination of family housing requirements data with Fort Carson and the Air Force Academy.

Management Comments. The Air Force concurred with Recommendation 1.a. to use the April 1995 housing market analysis as the latest official document. The Air Force concurred in principle with Recommendation 1.b. to develop coordination procedures with Fort Carson and the Air Force Academy, agreeing to strengthen Air Force guidance to require coordination of housing market analysis results.

2. We recommend that the Commander, Fort Carson, develop procedures for regular coordination of family housing requirements data with Peterson Air Force Base and the Air Force Academy.

Management Comments. The Army concurred with the recommendation that the Commander, Fort Carson, develop procedures for coordination of family housing requirements data with Peterson Air Force Base and the Air Force Academy.

Audit Response. The Army comments are responsive to Recommendation 2. However, the Army must provide a completion date for planned actions. We request that the Army provide comments on the final report.

3. We recommend that the Commander, United States Air Force Academy, develop procedures for regular coordination of family housing requirements data with Fort Carson and Peterson Air Force Base.

Management Comments. The Air Force concurred with Recommendation 3. to develop coordination procedures with Fort Carson and Peterson Air Force Base, agreeing to strengthen Air Force guidance to require coordination of housing market analysis results.

Management Comments on the Finding and Audit Response

The Army provided the following comments on the finding. For the full text of management comments, see Part III.

Management Comments. The Army stated that, based on a combined analysis of housing requirements for the three installations, using Army methodology, the combined deficit of affordable housing was approximately 2,500 units for FY 2001.

Audit Response. We did not evaluate the Army housing market analysis that resulted in a 1,245 unit housing deficit at Fort Carson or the Air Force housing market analysis that resulted in a 3 unit housing deficit at the Air Force Academy. Combined with the 202 unit deficit from the Peterson Air Force Base housing market analysis, the resulting deficit would total 1,450 units. The Army also conducted a combined housing market analysis that resulted in a 2,500 unit deficit for the 3 installations in the Colorado Springs area. Although we did not review the Army combined housing market analysis, we have concern about the 2,500 unit deficit when comparing it to the 1,450 unit deficit computed in the individual housing market analyses. The Army and other Service methodologies for computing housing requirements are being addressed in a separate report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We performed this audit using DoD and Air Force guidance to evaluate how Peterson AFB determines its family housing requirements. This report is limited to our review of the contractor's market analysis documentation for Peterson AFB dated February, April, and October 1995 and an Air Force Space Command construction priority listing dated July 1996. Our review of the management control program applicable to the family housing requirements determination process for the Air Force and the other Military Services will be contained in a separate report. This audit did not rely on computer-processed data or statistical sampling procedures.

Audit Period, Standards, and Locations

This economy and efficiency audit was made from July through September 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Appendix B. Summary of Prior Audits and Other Reviews

Inspector General, DoD

Inspector General, DoD, Report No. 95-013, "Development of Ford Island, Pearl Harbor, Hawaii," October 19, 1994, states that the Army, the Navy, the Air Force, and the Marine Corps on Oahu were duplicating the responsibility of the Oahu Consolidated Family Housing Office, U.S. Army Pacific. The Navy's plan to build 780 military family housing units on Ford Island and, more generally, the U.S. Pacific Command's "Strategy 8000 Family Housing Acquisition Plan," were not based on a valid requirement. We recommended that all military family housing construction projects on Ford Island be suspended until requirements were adequately justified and validated. Management generally concurred with the recommendations.

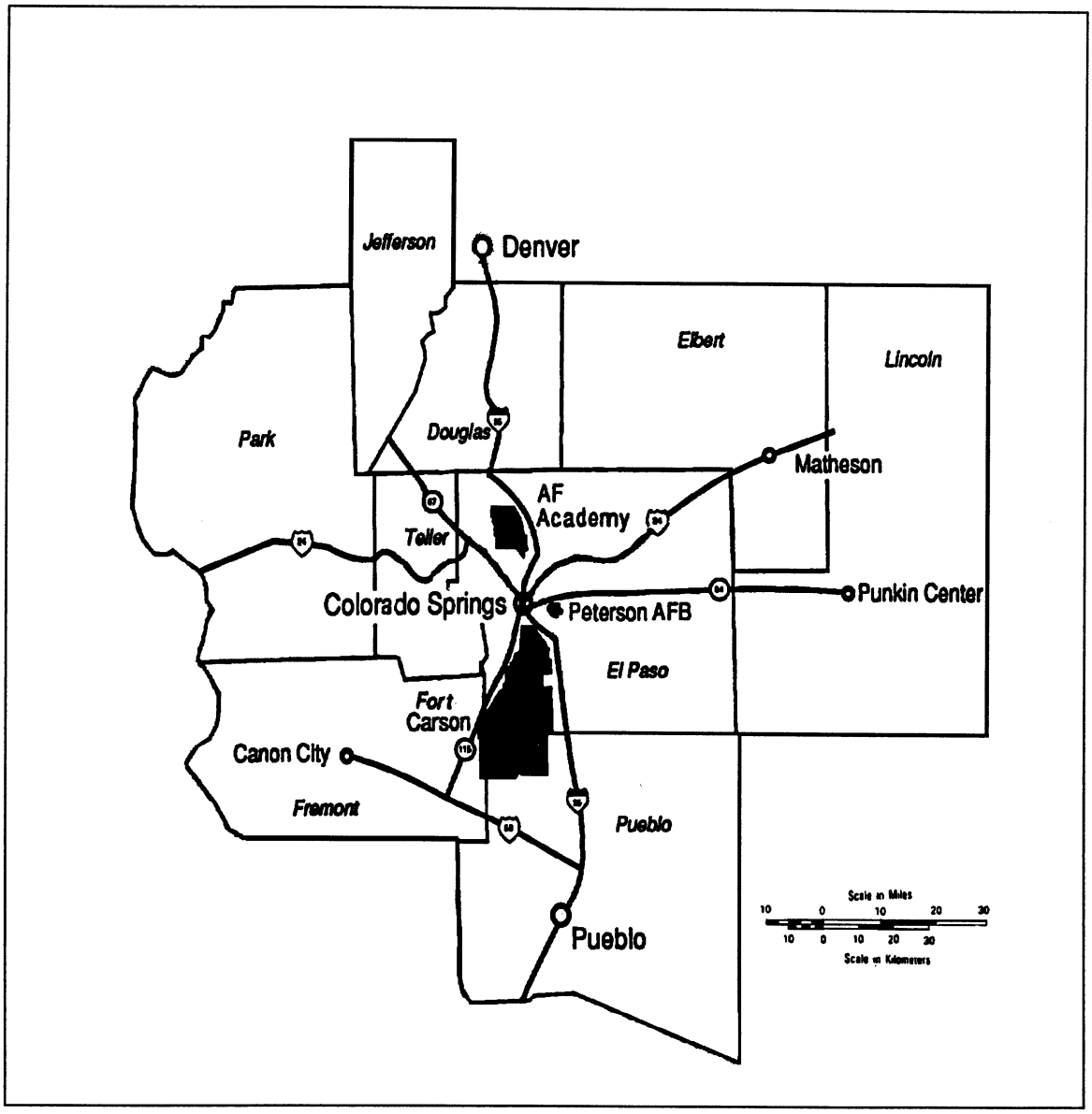
Inspector General, DoD, Report No. 94-179, "Defense Base Realignment and Closure Budget Data for McGuire Air Force Base, New Jersey; Barksdale Air Force Base, Louisiana; and Fairchild Air Force Base, Washington," August 31, 1992, stated that the Air Mobility Command lacked adequate data to support two planned family housing projects valued at $63.6 million. Air Mobility Command did not conduct a site survey on the availability of family housing at McGuire Air Force Base, did not consider existing tri-Service agreements, and did not perform an economic analysis of the local family housing market. The report recommended that Air Mobility Command defer funding of the family housing units until a site survey and an economic analysis were completed. The report concluded that proposed management actions would meet the intent of the recommendation.

Inspector General, DoD, Report No. 93-030, "DoD Family Housing Requirements Computations," December 11, 1992, states that the Navy and the Air Force overstated family housing requirements used to support five section 801 projects. The family housing survey procedures and the DoD suitability evaluation criteria used to determine family housing requirements were not followed or consistently applied. In addition, Navy and Air Force management did not review or validate the data in the family housing surveys. Available family housing was excluded from private sector family housing computations. The Navy and the Air Force did not have guidance on computing the military fair share ratio used in a housing market analysis. The report recommended changes in the Navy and the Air Force family housing survey processes and changes in the DoD suitability evaluation criteria used in the family housing requirement determination process. Management concurred with the recommendations.

Department of the Navy

Naval Audit Service, Report No. 065-C-94, "Navy Family Housing Requirements," September 26, 1994, states that the Naval Facilities Engineering Command overstated family housing requirements because of flawed procedures, poor implementation of those procedures, and significant problems with the accuracy of data on which estimated requirements were based. The Naval Audit Service recommended delaying planned construction and redetermining family housing requirements for all areas using new combined survey procedures and improved sampling and data validation procedures. Management concurred with the recommendations and the monetary benefits.

Appendix C. Relative Proximity of Fort Carson, Peterson Air Force Base, and the Air Force Academy



Appendix D. Report Distribution

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  Principal Assistant Deputy Under Secretary of Defense (Industrial Affairs and Installations)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Commanding General, U.S. Army Forces Command
  Commanding General, Fort Carson
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Air Force Space Command
  Commander, Peterson Air Force Base
Commander, United States Air Force Academy
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Director, Directorate of Housing, Office of the Civil Engineer, Department of the Air Force

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  Senate Committee on Governmental Affairs
  House Committee on Appropriations
  House Subcommittee on Military Construction, Committee on Appropriations
  House Subcommittee on National Security, Committee on Appropriations
  House Committee on Government Reform and Oversight
  House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
  House Committee on National Security

Part III - Management Comments

Department of the Army Comments

DEPARTMENT OF THE ARMY
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT
600 ARMY PENTAGON
WASHINGTON DC 20310-0600

REPLY TO ATTENTION OF

DAIM-FDH-M

31 OCT 1996

MEMORANDUM THRU ~~DIRECTOR OF THE ARMY STAFF~~ ~~DEPUTY ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS & HOUSING)~~ CHARLES H. INGERSOLL TO GS,ADECC 4 NOV 96

Paul W. Johnson
Deputy Assistant Secretary of the Army
(Installations and Housing)
OASA (I, L&E)
12 NOV 1996

FOR THE INSPECTOR GENERAL, DOD (AUDITING)

SUBJECT: Quick-Reaction Report on the Housing Market Analysis at Peterson Air Force Base, Colorado (Project No. 5CG-5048.02)

1. The Army agrees with the recommendation that the Commander, Fort Carson, develop procedures for regular coordination of family housing requirements data with Peterson Air Force Base and the Air Force Academy. We are unable to comment on the Air Force's methodology for determining their deficit at Peterson Air Force Base. However, we do believe that there is a shortage of affordable housing in the Colorado Springs area for all services. Using the Army's methodology combined with Air Force data for their installations, the deficit approaches 2,500 units for FY 2001.

2. Point of Contact is Mr. James Tarlton, 428-7742.

FRANK L. MILLER, JR.
Major General, GS
Assistant Chief of Staff for
Installation Management

CF
SAAG-PMF-E
CDR, Forces Command, AFPI-ENH

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

05 NOV 1996

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DoD/IG Draft Quick-Reaction Report on the Housing Market Analysis at Peterson Air Force Base, Colorado (Project no. 5CG-5048.02)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

Recommendation 1.a.: Concur that the Peterson AFB Housing Market Analysis (HMA) dated February 1995 be used as the latest official document to comply with OSD MAHC criteria. On 9 May 1995, the Air Force Director of Housing requested excursions to several HMAs using the maximum allowable housing cost (MAHC) compensation formula (BAQ+VHA+15%) for comparative analysis with the OSD MAHC formula (BAQ+VHA+0.5 BAQ). There was no intent to develop new HMAs based on the compensation formula. The excursions were conducted and the findings reflect relative affordability of private sector housing by military members. Peterson AFB made an independent decision to develop a complete HMA dated October 1995 using the compensation formula.

Recommendations 1.b., 2, and 3: Concur in principle, however, do not believe specific procedures for coordination of family housing requirements data between installations within the Peterson AFB market area are necessary. Generically, the Air Force Housing Market Analysis Guidance Manual requires the HMA process incorporate the housing requirements for all military installations in a common market area by comparing current and projected manpower and assets obtained from those installations to determine net requirements for private sector housing. A revision strengthening the guidance to require coordination of the results between installations will be issued not later than January 1997.

Our point of contact is R.W. Munsie, AF/CEHI, 697-0157.

DONALD E. MURPHY, Colonel, USAF
Director of Housing
Office of The Civil Engineer

cc:
SAF/FMPF
AF/CEPP
HQ AFSPC/CE
Peterson AFB/CE

Final Report Reference

Headquarters United States Air Force

AF/CEHI

Directorate of Housing

Investment Division

27 November, 1996

MEMORANDUM FOR: **Mr. Andrew Filer, DoD/IG-CM**

SUBJECT: **DoD Draft Quick Reaction Report on the Housing Market Analysis at Peterson AFB, CO (Project 5CG-5048.02)**

By memo dated 5 Nov 96, the Air Force Director of Housing (AF/CEH) concurred with your recommendation to use the Feb 95 Draft HMA as the current official document at Peterson AFB. I was under the impression that the Oct 95 document was the Final HMA with the revised, but wrong, MAHC formula. Today I received a memo from HQ AF Space Command (AFSPC) indicating that the attached Final HMA, dated Apr 95, was developed using the correct MAHC formula (see Section 4.2.2.1). The April 95 HMA should therefore be considered the current "official" report for Peterson AFB.

Revised draft Recommendation 1.a.

I am sorry this information was not previously provided to either you or me during our separate discussions with HQ AFSPC regarding this issue.

R.W. Munsie
AF/CEHIR
697-0157

Attachment:
HMA, Peterson AFB, Apr 95

Audit Team Members

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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