



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

MEMORANDUM FOR ALMAJCOM/CE/FM/JA/LG
HQ USAFA/CE/FM/JA/LG

8 Jan 01

FROM: HQ USAF/ILE
1260 Air Force Pentagon
Washington DC 20330-1260

SUBJECT: Policy and Guidance (P&G) for Privatizing Air Force Utility Systems
(Dec 00 Revision)

Attached you will find the updated Air Force P&G for privatizing AF utility systems. This revision is necessary to account for, and address current developments in the program. The following statements highlight prevalent changes:

- The P&G Revision at Attachment 1 replaces the following sections of the P&G Manual dated Oct 98: cover sheet, table of contents, acronyms, executive summary, Sections 1, 2, and 3.
- Appendix J, Government Cost Estimate Procedures for Developing the Adjusted Status Quo Cost, is a new addition to the P&G and is at Attachment 2.

In addition, the policy clarification at Attachment 3 replaces the Clarification of Policies and Procedures dated 9 Jul 99.

We are at a dynamic point in our program and I appreciate your support as we continue the execution. If your staff has any questions our POC for utilities privatization is Lt Col Alberto Armesto, AF/ILEIO, DSN 664-4220, email: alberto.armesto@pentagon.af.mil.

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Major General, USAF
The Civil Engineer
DCS/Installation & Logistics

Attachment:

1. Policy and Guidance Revision
2. Appendix J
3. Policy Clarification Update

cc:

SAF/MII/AQC/GCN/FMC
HQ AFCEA/CC
HQ AFCEE/CC

United States Air Force

Utilities Privatization Policy and Guidance Manual



December 2000

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1 Acronyms

2	AFCEE	Air Force Center for Environmental Excellence
3	AFCESA	Air Force Civil Engineer Support Agency
4	AFFARS	Air Force Federal Acquisition Regulations Supplement
5	AFI	Air Force Instruction
6	AFLMA	Air Force Logistics Management Agency
7	AFLSA	Air Force Legal Services Agency
8	AFM	Air Force Manual
9	AFREA	Air Force Real Estate Agency
10	BRAC	Base Realignment and Closure
11	CATEX	categorical exclusion
12	CBD	Commerce Business Daily
13	DFARS	Defense Federal Acquisition Regulations Supplement
14	DoD	Department of Defense
15	DRI	Defense Reform Initiative
16	DRID	Defense Reform Initiative Directive
17	EBS	Environmental Baseline Survey
18	EIAP	Environmental Impact Analysis Process
19	EIS	environmental impact statement
20	ESPC	Energy Savings Performance Contract
21	FAR	Federal Acquisition Regulation
22	FM	Financial Manager
23	FYDP	Future Years Defense Plan
24	HQ	Headquarters
25	IPT	Integrated Process Team
26	KGAL	thousand gallon
27	MAJCOM	Major Command
28	MILCON	Military Construction

1	MWH	megawatt hour
2	NAVFAC	Naval Facilities Engineering Command
3	NEPA	National Environmental Policy Act
4	NPV	net present value
5	O&M	operations and maintenance
6	OMB	Office of Management and Budget
7	PMP	Program Management Plan
8	POM	Program Objective Memorandum
9	QA/QC	Quality Assurance/Quality Control
10	RCN	replacement cost new
11	RCNLD	replacement cost new less depreciation
12	RFI	Request for Interest
13	RFP	Request for Proposals
14	AF/AQ	Assistant Secretary of the Air Force, Acquisition
15	SAF/FMB	Deputy Assistant Secretary of the Air Force, Budget
16	SAF/FMC	Deputy Assistant Secretary of the Air Force, Cost and Economics
17	SAF/GCN	Deputy General Counsel for Installations and Environment
18	SAF/LL	Office of Legislative Liaison
19	SAF/MII	Deputy Assistant Secretary of the Air Force, Installations
20	SAF/PA	Office of Public Affairs
21	SECAF	Secretary of the Air Force
22	SOQ	Statement of Qualifications
23	SSA	Source Selection Authority
24	SSET	Source Selection Evaluation Team
25	SSP	Source Selection Plan
26	USACE	United States Army Corps of Engineers
27	USAF	United States Air Force
28	AF/DPP	Division of Personnel Programs, Education, and Training; Deputy Chief
29		of Staff, Personnel
30	AF/IL	Deputy Chief of Staff for Installations and Logistics

1	AF/ILE	Office of the Civil Engineer
2	AF/ILEC	Engineering Division, Office of the Civil Engineer
3	AF/ILEI	Privatization Division, Office of the Civil Engineer
4	AF/ILEO	Operations Division, Office of the Civil Engineer
5	AF/ILEP	Programs Division, Office of the Civil Engineer
6	AF/ILEV	Environmental Division, Office of the Civil Engineer
7	AF/ILEX	Readiness & Installation Support Division, Office of the Civil Engineer
8	USC	United States Code

1 Executive Summary

*This Utilities Privatization
Policy and Guidance
Manual provides procedures
to implement the DRI to
privatize DoD utility
systems.*

2 This *Utilities Privatization Policy and Guidance Manual* was
3 originally prepared by Headquarters, United States Air
4 Force, Deputy Chief of Staff for Installations and Logistics,
5 Office of the Civil Engineer, Competitive Sourcing and
6 Privatization Division (AF/ILEI), now called Privatization
7 Division.

8 This policy and guidance identifies major roles and
9 responsibilities, discusses legislative authority, and
10 presents the processes required to privatize utility plants
11 and systems in accordance with the Defense Reform
12 Initiative (DRI) dated November 1997. The DRI specified
13 that all Department of Defense (DoD) utility systems
14 (electric, water, wastewater, and natural gas) be privatized
15 by 1 January 2000, except those needed for unique security
16 reasons or when privatization is uneconomical. The DRI
17 was implemented by Defense Reform Initiative Directive
18 (DRID) #9 and, later DRID #49 which requires the award
19 of privatization contracts for all utility systems no later
20 than 30 Sep 03. There are two interim milestones. The
21 first interim milestone requires the completion of a
22 determination for all systems of whether or not to pursue
23 privatization by 30 Sep 00. The second interim
24 milestone requires all solicitations to be released no later
25 than 30 Sep 01.

26 Privatization is the process by which the Air Force will
27 transfer to a qualified entity, which may include
28 companies that are not considered typical utility
29 companies, ownership of the utility system, while at the
30 same time contracting for the provision of quality utility
31 service to all installation facilities. The procedures
32 outlined in this policy and guidance focus on executing
33 privatization projects to meet the requirements of the
34 DRID using the statutory authority of Section 2688, Utility
35 Systems Conveyance Authority, of Title 10, United States
36 Code (10 USC § 2688).

37 Once the Air Staff identifies utility systems eligible for
38 privatization, the Installation/Wing Commander is
39 responsible for executing appropriate privatization
40 projects. The Major Command (MAJCOM) will assist and
41 facilitate the privatization process and interact with

1 AF/ILEI on policy issues and the Deputy General Counsel
2 for Installations and Environment (SAF/GCN) on legal
3 issues. Headquarters, Air Force Civil Engineer Support
4 Agency (HQ AFCESA) and Headquarters, Air Force
5 Center for Environmental Excellence (HQ AFCEE) will
6 provide technical and contract support for performing the
7 required analyses.

8 The utilities privatization process includes a preliminary
9 screening process followed by a three-phase process,
10 described below:

*The utilities privatization
process has three major
phases.*

11 • **The Preliminary Screening Process** is performed for
12 all programmed utility systems to determine which
13 systems are exempt from privatization for readiness or
14 unique security reasons. The Secretary of the Air Force
15 (SECAF) makes exemption decisions.

16 • **The Project Plan and Feasibility Analysis Phase**
17 results in the Project Plan and Feasibility Analysis
18 Report. This Feasibility Analysis Report includes a
19 Preliminary Economic Analysis and determines
20 whether responsive proposals for the purchase of the
21 system are likely to be received.

22 • **The Comprehensive Analysis Phase** results in a Draft
23 Comprehensive Analysis Report and Draft Request for
24 Proposal (RFP). The Comprehensive Analysis Report
25 includes analyses on real estate, environmental,
26 transition, and planning issues affecting privatization.
27 This phase also determines appropriate terms and
28 conditions to be factored into preparing the Draft RFP.

29 • **The Final Feasibility, Approval, and Implementation**
30 **Phase** results in an Approval Package submitted for
31 SECAF approval. This Approval Package includes the
32 Final Comprehensive Analysis Report and the final
33 revised proposal of the selected offeror. The Final
34 Comprehensive Analysis Report includes a certified
35 Economic Analysis and updates the transition plans
36 based on the final revised proposal of the selected
37 offeror.

38 Once each phase is completed the resulting documents
39 will be reviewed to determine whether to proceed to the
40 next phase or exempt the utility system from privatization.
41 Only the SECAF can exempt a utility system from
42 privatization.

1.0 Utilities Privatization Policy

Overview

Air Force vision: privatize utility systems where it makes economic sense and has no adverse impact on readiness or security.

Utilities will be transferred under 10 USC § 2688, Utility System Conveyance Authority.

This policy and guidance does not address leasing, competitive sourcing, or ESPC.

4 This Utilities Privatization Policy and Guidance provides
5 implementing policy and guidance to comply with DRID
6 #49 to privatize electric, water, wastewater, and natural
7 gas utility systems owned and operated by the
8 Department of the Air Force. The objectives of the DRID
9 (**Appendix A**) are to reduce long-term financial
10 requirements to support these systems, thereby making
11 scarce funds available for mission-critical requirements,
12 such as force modernization, and to permit Air Force
13 leadership to focus on core competencies and the global
14 mission to achieve air and space superiority. Utility
15 systems that are exempt from privatization under the
16 DRID are those subject to readiness or unique security
17 considerations or utility systems where privatization is
18 determined not to be economical.

19 Several Air Force goals must be achieved and maintained
20 throughout the privatization process. The Air Force's
21 basic goal is to transfer ownership of utility systems to
22 obtain better economies. The transfer of utility system
23 ownership and the responsibility to provide utility
24 services must make good business sense and result in the
25 Air Force purchase of utility services at a lower long-term
26 cost. The privatized utility service must also be as reliable
27 as the current Air Force system. The Air Force will not
28 privatize under 10 USC § 2688 utilities systems that, in the
29 view of the SECAF, are required for mission readiness.

30
31 This policy and guidance does not address leasing or
32 concessions, competitive sourcing (contracting out system
33 operations and maintenance [O&M]), or energy savings
34 performance contracts (ESPCs) (projects executed under 42
35 USC § 8287, Shared Energy Savings, involving private
36 sector capital for energy savings projects). For competitive
37 sourcing projects, attention is directed to the Office of
38 Management and Budget (OMB) Circular A-76,

1 Performance of Commercial Activities; the Air Force
2 Logistics Management Agency (AFLMA) Competitive
3 sourcing Guide for Contracting; and Air Force Instruction
4 (AFI) 38-203, Commercial Activities Program.

5 Application

6 This policy and guidance applies to all Air Force
7 Installations, Major Commands (MAJCOMs), Reserve
8 Components, field operating agencies, and direct-
9 reporting units that currently operate and maintain
10 government-owned utility systems.

11 Specific Guidance

*AF/ILEI is the focal point for
privatization initiatives.*

12 The SECAF has designated the Assistant Deputy Chief of
13 Staff for Installations and Logistics (AF/IL) as the program
14 champion, thus providing senior leadership and
15 continuity, as well as spearhead timely execution of the
16 program. AF/ILEI is the focal point for all utilities
17 privatization. AF/ILEI is tasked with managing
18 privatization initiatives and implementing the following
19 policy guidelines:

*Mission and force readiness
will not be jeopardized.*

20 • The utilities privatization process outlined in this
21 policy and guidance will be used for the privatization
22 of all Air Force utility plants and systems. Mission
23 capability and force readiness cannot, and will not, be
24 jeopardized as part of the process.

25 • All Air Force utility systems will be considered for
26 privatization. However, to ensure that operational
27 impacts are not overlooked, a series of vulnerability
28 assessments using operational risk management
29 techniques are incorporated at the programmatic and
30 base levels of the program to identify privatization
31 exemptions for the following reasons:

32 -- Readiness (Air Staff screen)

33 -- Unique security requirements (Air Staff and
34 MAJCOMS)

35 • The authority to proceed with privatization of a
36 particular utility system will be delegated to the
37 appropriate level; currently, Section 2688 authority has
38 not been delegated below the Deputy Assistant
39 Secretary of the Air Force (SAF/MII). Authority to

1 make congressional notifications will not be delegated
2 below the level of SAF/MII. A decision not to pursue
3 a specific project that has passed the readiness and
4 security revalidation process must be reviewed and
5 approved by the SECAF.

6 • Only two alternatives for privatizing utility systems
7 are considered in this policy and guidance: the status
8 quo and privatization. Privatization is selling a utility
9 system and its assets and, if appropriate, the
10 underlying real estate, to a qualified entity. If
11 privatization is not feasible, other alternatives, such as
12 competitive sourcing, will be considered; however,
13 these alternatives are not addressed in this policy and
14 guidance.

*Maximize competition
to assure best value.*

15 • Full and open competition among all interested and
16 qualified entities is generally required. Full
17 competition will help ensure the best value for the Air
18 Force.

19 • All privatization projects will be supported by an
20 economic analysis based on accepted life-cycle costing
21 procedures that demonstrate the long-term economic
22 benefit and reduced long-term costs of the sale. In the
23 economic analysis, all costs to the United States, not
24 just the Air Force, must be analyzed, including hidden
25 costs such as indirect military and civilian staffing,
26 taxes, and insurance. The Economic Analysis must
27 adhere to OMB Circular A-94, Guidelines and
28 Discount Rates for Benefit Cost Analysis of Federal
29 Programs; AFM 65-506, Financial Management and
30 Economic Analysis; and any supplemental guidance
31 from Headquarters, United States Air Force (HQ
32 USAF).

33 • Real estate and planning implications of privatization
34 alternatives must also be considered, including the
35 Housing Privatization Program, on- and off-base land
36 use, access, security, traffic control, encroachment, and
37 environmental effects. The potential industry and
38 local community interest in the privatization project
39 should also be identified and evaluated.

- 1 • OMB Circular A-76 requirements and procedures do
2 not apply to utilities privatization under 10 USC §
3 2688.
- 4 • Installations will keep the local community informed
5 of the potential for utility system privatization.
6 Privatization projects may include evaluating the
7 purchase of services from off base or using
8 government property to develop needed utility
9 infrastructure along with sale of the existing system.
- 10 • The following criteria will be considered in proceeding
11 with privatization:
- 12 -- Economic viability and market interest will be
13 assessed preliminarily before the Request for
14 Proposal (RFP) is developed.
- 15 -- Offerors direct financial capability, as well as that
16 of their affiliated companies, will be thoroughly
17 reviewed before any award is recommended.
- 18 -- Air Staff will consider long-term force structure
19 impacts.
- 20 -- RFPs will clearly state that the Air Force may
21 decide not to award a contract or make a selection,
22 and such a decision involves no liability to the
23 Air Force.
- 24 • Privatization must not adversely affect force structure.
25 The Air Staff/MAJCOMs will identify any utilities
26 potentially affected by these criteria and remove them
27 from further consideration for privatization.
- 28 Utility privatization may only take place under 10 USC §
29 2688 when the long-term benefit exceeds the long-term
30 costs and long-term costs will be reduced. These
31 calculations are based on a life-cycle analysis of “should”
32 costs. OMB Circular A-94 allows for choosing, as between
33 alternative offers, a more costly alternative if the benefits
34 can be demonstrated to be greater. Thus, the selection
35 process for privatization will be based on the “best value”
36 of those proposals that also meet the economic
37 requirements of 10 USC § 2688.
-
- OMB Circular A-76,
Performance of Commercial
Activities, does not apply to
privatization.*
-
- Projects must make
good business sense.*
-
- Break-even or better life-
cycle cost savings required
for privatization.*
-

1 **2.0 Roles and Responsibilities**

2 **Overview**

*Privatization is a corporate
team effort.*

3 Implementing utilities privatization will require a
4 concerted effort of all concerned, from the installation
5 where the feasibility will be assessed, to HQ USAF where
6 each project will ultimately be approved. To meet the Air
7 Force objectives for utilities privatization, it is important to
8 understand the organizational roles and responsibilities
9 necessary for successful implementation.

10 **Installation/Wing Commanders**

11 Once a particular utility system is screened and
12 determined not to have readiness or unique security
13 impacts, installation commanders are responsible for
14 initiating and guiding the project through the utilities
15 privatization process. Specifically, the installation
16 commanders are responsible for the following:

- 17 • Supporting HQ USAF with revalidating readiness
18 impacts that might affect privatization.
- 19 • Supporting HQ USAF with revalidating unique
20 security requirements that might affect privatization.
- 21 • Preparing the Project Plan.
- 22 • Assessing the feasibility of utilities privatization using
23 the process described in this policy and guidance.
- 24 • Initiating and maintaining communications with the
25 affected employees, unions, local community, local
26 elected officials, regulators, and the MAJCOM,
27 AF/ILEI, HQ AFCESA, and HQ AFCEE.
- 28 • Completing the Environmental Impact Analysis
29 Process (EIAP) (Air Force Instruction [AFI] 32-7061) to
30 assess the environmental impacts of the project.

*Installation/Wing
Commanders have the lead.*

31

- 1 • Using HQ USAF provided templates, preparing draft
2 real estate documents, including legal descriptions and
3 appraisals if appropriate.
- 4 • Determining the need, if any, to prepare an
5 environmental baseline survey (EBS), AFI 32-7066,
6 Environmental Baseline Surveys in Real Estate
7 Transactions.
- 8 • Initiating and managing the acquisition process.
- 9 • Awarding the resulting utility service contract and
10 providing post-award project quality control,
11 management, and contract administration.
- 12 • Reviewing the Preliminary, Draft, and Final Economic
13 Analyses.
- 14 • Resolving policy issues with AF/ILEI.
- 15 • Resolving legal issues through the MAJCOM/JA to Air
16 Force Legal Services Agency (AFLSA).
- 17 • Establish installation privatization team members.

18 Major Commands

19 MAJCOMs have the primary responsibility for developing
20 the privatization program and providing support to
21 installations in executing privatization projects. To
22 support the privatization program, MAJCOMs are
23 responsible for the following:

*MAJCOMs develop
the privatization program.*

- 24 • Assisting the Air Staff in identifying unique security
25 requirements that will preclude privatization of
26 particular utility systems.
- 27 • Assisting installations in screening projects for
28 privatization feasibility
- 29 • Supporting site visits, and developing and submitting
30 project documents to AF/ILEI for review and
31 approval.
- 32 • Assisting in developing the RFP and source selection
33 criteria.
- 34 • Tracking the RFP, proposal, and source selection
35 processes.

- 1 • Identifying, programming, and budgeting utilities
2 privatization support.
- 3 • Establishing and directing a MAJCOM utilities
4 privatization management team that includes
5 professionals from contracting, real property, financial
6 analysis, environmental, engineering, legal, and other
7 specialties required for privatization analyses.
- 8 • Assessing the mission impact of privatizing utility
9 systems on a case-by-case basis.
- 10 • Reviewing the Preliminary, Draft, and Final Economic
11 Analyses.

12 **Deputy Chief of Staff for Installations and** 13 **Logistics, Office of the Civil Engineer**

14 Deputy Chief of Staff for Installations and Logistics, Office
15 of the Civil Engineer (AF/ILE) is tasked with the overall
16 management responsibility for utilities privatization
17 initiatives. Privatization responsibilities include the
18 following:

*AF/ILE is the overall
utilities privatization
program manager.*

- 19 • Developing policy for privatization projects.
- 20 • Developing and maintaining the inventory of utility
21 systems.
- 22 • Along with the MAJCOMs, determining which utility
23 systems have unique readiness or security
24 requirements resulting in exemption from
25 privatization.
- 26 • Programming and budgeting for privatization
27 program resources.
- 28 • Reviewing the proposed privatization awards prior to
29 submission to SAF/MII for Congressional notification.
- 30 • Coordinating and guiding privatization projects
31 through HQ USAF reviews.
- 32
- 33 • Directing the preparation of information and status
34 reports mandated by law and notifications of project
35 initiation and proposed awards to Congress.

The Civil Engineer Utilities Privatization IPT is the executive steering group.

1 **Civil Engineer Utilities Privatization**
2 **Integrated Process Team**

3 The Civil Engineer Utilities Privatization Integrated
4 Process Team (IPT) is led by AF/ILEI and includes
5 members with expertise in utility operations and
6 construction program management. The Civil Engineer
7 Utilities Privatization IPT is made up of representatives
8 from HQ USAF from the following organizations:

- 9 • Assistant Secretary of the Air Force (Acquisition)
10 (SAF/AQ)
- 11 • SAF/MII
- 12 • Assistant Secretary of the Air Force (Financial
13 Management), Budget and Cost Divisions (SAF/FMB
14 and SAF/FMC)
- 15 • Legal (SAF/GCN and AFLSA)
- 16 • Office of Public Affairs (SAF/PA)
- 17 • Deputy Chief of Staff for Installations & Logistics
18 (AF/IL)
- 19 • Deputy Chief of Staff for Personnel, Personnel
20 Programs, Education, and Training Division (AF/DPP)
- 21 • Deputy Chief of Staff for Installations & Logistics,
22 Office of the Civil Engineer (AF/ILE)
- 23 • Deputy Chief of Staff for Installations & Logistics,
24 Office of the Civil Engineer, Engineering Division
25 (AF/ILEC)
- 26 • Deputy Chief of Staff for Installations & Logistics,
27 Office of the Civil Engineer, Privatization Division
28 (AF/ILEI)
- 29 • Deputy Chief of Staff for Installations & Logistics,
30 Office of the Civil Engineer, Operations Division
31 (AF/ILEO)
- 32 • Deputy Chief of Staff for Installation & Logistics,
33 Office of the Civil Engineer, Programs Division
34 (AF/ILEP)

- 1 • Deputy Chief of Staff for Installations & Logistics,
2 Office of the Civil Engineer, Environmental Division
3 (AF/ILEV)
- 4 • Deputy Chief of Staff for Installations and Logistics,
5 Office of the Civil Engineer, Readiness & Installation
6 Support Division (AF/ILEX)
- 7 • Deputy Chief of Staff for Plans and Programs,
8 Manpower and Organization (AF/XPM)
- 9 • HQ AFCESA
- 10 • HQ AFCEE
- 11 • HQ AFREA

12 The Civil Engineer Utilities Privatization IPT was
13 chartered to develop and maintain a program of private
14 sector-financed projects, including the utilities
15 privatization initiative described in this policy and
16 guidance. The IPT serves as the Air Force advocate for
17 executing privatization projects. The Civil Engineer
18 Utilities Privatization IPT is also responsible for
19 developing and managing the overall privatization
20 process. Specific tasks include the following:

- 21 • Developing implementation process guidelines.
- 22 • Addressing program policy and guidance issues.
- 23 • Defining criteria for identifying and integrating
24 privatization projects.
- 25 • Monitoring program and project progress and results
26 using the utilities privatization authority.
- 27 • Reporting program initiatives to the Air Force
28 corporate board structure through the Air Force
29 Competitive Sourcing and Privatization Panel and its
30 Executive Steering Group.

31 The Civil Engineer Utilities Privatization IPT also assists
32 the MAJCOMs by validating project requirements,
33 assisting in project submittal development, and
34 supporting the integrated acquisition teams formed to
35 solicit and evaluate proposals.

	1	Headquarters, United States Air Force
	2	Engineering Division, Office of the Civil Engineer
<hr/> <i>AF/ILEC conducts corporate review.</i> <hr/>	3	AF/ILEC conducts corporate reviews and coordinates
	4	policy for Military Construction (MILCON) level
	5	programming, design, and construction associated with
	6	privatization projects.
	7	Privatization Division, Office of the Civil Engineer
	8	AF/ILEI manages and oversees the Air Force utilities
<hr/> <i>AF/ILEI manages the Air Force privatization program.</i> <hr/>	9	privatization program. This role includes working with
	10	SAF/MII to implement privatization authority. AF/ILEI
	11	also leads the Civil Engineer Utilities Privatization IPT in
	12	developing and providing overall program policy
	13	guidance to the MAJCOMs. AF/ILEI is the Air Staff focal
	14	point for utilities privatization policy issues and projects.
	15	AF/ILEI supports and guides the MAJCOMs, as
	16	necessary, throughout the process. This includes
	17	participating in installation site visits and reviewing
	18	project submittals, reports, project plans, and
	19	solicitation/acquisition documents. AF/ILEI also
	20	supports project approval briefings and processes
	21	Congressional notification submittals through SAF/MII.
	22	Operation and Maintenance Division, Office of the Civil
<hr/> <i>AF/ILEO evaluates funding issues.</i> <hr/>	23	Engineer
	24	AF/ILEO develops and oversees program execution of
	25	real property maintenance and services activities for all
	26	MAJCOMs, and is responsible for policy and analysis.
	27	Programs Division, Office of the Civil Engineer
	28	AF/ILEP is the advocate for AF/ILE Program Objective
	29	Memorandum (POM) initiatives for privatization.
	30	Environmental Division, Office of the Civil Engineer
	31	AF/ILEV coordinates environmental policy regarding the
	32	implementation of utilities privatization projects.
	33	Readiness and Installation Support Division, Office of the
	34	Civil Engineer
	35	AF/ILEX is responsible for installation issues,
	36	expeditionary engineering, and emergency services
	37	programs.

	1	Personnel Programs, Education, and Training, Directorate of Personnel
	2	
	3	AF/DPP is responsible for entitlements due to employees and staff affected by privatization of a utility system.
	4	
	5	Headquarters, Air Force Civil Engineer Support Agency
	6	HQ AFCESA provides technical engineering and privatization expertise and contracting support to AF/ILE, MAJCOMs, and installations. This support includes, but is not limited to, the following:
<hr/> <i>HQ AFCESA provides technical and specialized expertise in engineering, privatization, and contracting support matters.</i> <hr/>	7	
	8	
	9	
	10	• Reviewing the revalidation for readiness and unique security requirements.
	11	
	12	• Outlining “road maps” for specific projects by developing Program Management Plans (PMPs) (Appendix C) .
	13	
	14	
	15	• Executing contract support for program requirements and project analyses.
	16	
	17	• Participating in installation site visits.
	18	• Providing technical guidance and assistance in preparing and reviewing technical reports, briefings, and other program documentation.
	19	
	20	
	21	• Providing advice on utility rates and representing the Air Force in the rate making process.
	22	
	23	• Assisting negotiations of real estate and utility contracts.
	24	
<hr/> <i>HQ AFCEE provides technical and contractual support for environmental matters.</i> <hr/>	25	Headquarters, Air Force Center for Environmental Excellence
	26	HQ AFCEE provides technical and contractual support to AF/ILE for any required EBS and regulatory compliance requirements.
	27	
	28	
	29	Headquarters, Air Force Real Estate Agency
	30	HQ AFREA acquires, manages, and disposes of all Air Force-controlled real property. Specifically, HQ AFREA is responsible for the following:
<hr/> <i>HQ AFREA establishes real property policy and procedures.</i> <hr/>	31	
	32	
	33	• Obtaining necessary approvals from the SECAF and Congress for all major land disposals.
	34	
	35	• Reviewing out-grants regarding the use of Air Force property.
	36	

USACE and NAVFAC can provide assistance to HQ AFREA.

- 1 • Overseeing title transfers, deed surveys, and property
- 2 instruments for major transactions.
- 3 • Surveying and disposing of excess land and real
- 4 property improvements.
- 5 In support of HQ AFREA, the United States Army Corps
- 6 of Engineers (USACE) or the Naval Facilities Engineering
- 7 Command (NAVFAC) can assist in the following:
- 8 • Preparing the legal survey of the property.
- 9 • Preparing an appraisal of the property.
- 10 • Assisting in drafting real estate documents.

SAF/FMB issues budget policy.

- 11 **Department of the Air Force**
- 12 **Deputy Assistant Secretary of the Air Force, Budget**
- 13 SAF/FMB manages the finances of Air Force-level
- 14 programs, supports formal OMB scoring negotiations, and
- 15 provides the MAJCOMs with budget policy and guidance.
- 16 Additionally, SAF/FMB supports the project execution
- 17 process with the following responsibilities:
- 18 • Reviewing and approving programming documents.
 - 19 • Providing appropriate Congressional notifications.

SAF/FMC develops evaluation criteria.

- 20 **Deputy Assistant Secretary of the Air Force, Cost and**
- 21 **Economics**
- 22 SAF/FMC establishes Air Force policy and procedures for
- 23 economic analyses related to privatization programs,
- 24 including developing evaluation criteria for Air Force
- 25 privatization alternatives. SAF/FMC reviews
- 26 privatization project submittals to ensure compliance with
- 27 economic analysis guidelines.

SAF/AQ coordinates real estate and contracting actions.

- 28 **Assistant Secretary of the Air Force, Acquisitions**
- 29 SAF/AQ is responsible for the following:
- 30 • Providing acquisition policy guidance for all
 - 31 privatization contracts governed by the Federal
 - 32 Acquisition Regulations (FAR).
 - 33 • Processing any changes or deviations to the FAR
 - 34 concerning privatization.

*SAF/MII approves policy
and initiates Congressional
reporting.*

1 • Coordinating with AF/ILE on privatization policy,
2 procedures, and projects that require both real estate
3 and contracting actions.

4 • Designating the Source Selection Authority (SSA) for
5 individual projects.

6 **Deputy Assistant Secretary of the Air Force, Installations**

7 SAF/MII provides overarching utilities privatization
8 policy guidance, approves and supports utilities
9 privatization projects through the budget process, and
10 initiates required Congressional notifications through
11 SAF/FMB and Office of Legislative Liaison (SAF/LL).
12 Specifically, SAF/MII is responsible for the following:

13 • Approving overall policy for privatization.

14 • Approving the business arrangement, or “deal,” before
15 Congressional notification.

16 • Approving real property arrangements before award.

17 • Reviewing, approving, signing and forwarding project
18 award notifications to the appropriate Congressional
19 committees.

20 • Ensuring that interim usage or the transfer of
21 ownership of real property will not interfere with the
22 objective of the Air Force or DoD.

23 **General Counsel**

24 SAF/GCN provides authoritative legal guidance on all
25 legal issues.

1 3.0 Utilities Privatization

2 Process

3 Overview

This policy and guidance was designed for use Air Force-wide.

4 This section outlines the steps necessary to develop and
5 manage privatization projects from the initial screening of
6 all candidate systems through closeout of all project
7 commitments. It was designed to assist Installation/Wing
8 Commanders and MAJCOM staffs through the process for
9 privatizing designated utility systems Air Force-wide.

10 The utilities privatization process described herein is
11 applicable to projects executed under the authority of 10
12 USC § 2688 (**Appendix B**). Privatization under this
13 authority permits selling DoD utility systems when the
14 SECAF determines it to be in the best interest of the
15 Government.

Technical guidance is available from HQ AFCESA.

16 Once candidate utility systems are identified, the
17 Installation/Wing Commander is responsible for
18 conducting the Feasibility Analysis and submitting a
19 privatization request. Although supporting
20 documentation should be prepared by the installation in
21 accordance with this guide, assistance from the MAJCOM
22 may be requested. Technical guidance is also available
23 from HQ AFCESA, and HQ AFCEE can provide technical
24 assistance on environmental matters. Questions of policy
25 should be directed to AF/ILEI through the MAJCOM.

Establish a dedicated installation privatization team with command support.

26 Privatizing an installation utility system involves
27 communicating and coordinating with other federal
28 agencies, state, tribal, and local governments, regulators,
29 the local community, installation officials, unions, affected
30 employees, HQ USAF, the MAJCOM staff, HQ AFCESA,
31 and HQ AFCEE. Because many resources are required to
32 privatize a utility system, it is of utmost importance to
33 establish a dedicated team of installation experts with
34 command support.

35 Communication should be established early and
36 maintained throughout the process. Contact should be
37 maintained on-installation within the project team and

The utilities privatization process can take about two years.

1 with affected unions and installation employees; off-
2 installation communication should also be maintained
3 with HQ USAF, the MAJCOM, HQ AFCEA, HQ AFCEE,
4 and with the local community. The success of the
5 initiative depends on active leadership and strong support
6 at all levels.

7 Because privatization involves a complex set of variables,
8 the privatization process can take about two years.

9 **Appendix D** is a time-phased representation (Gantt Chart)
10 of the utilities privatization process. Allocating sufficient
11 resources at the start, establishing effective
12 communications, and following the process will allow
13 projects to be delivered efficiently.

14 The privatization process proceeds through the following
15 steps, which are more clearly defined in the remainder of
16 this policy and guidance:

- 17 • Preliminary Screening of Programmed Utility Systems
- 18 • Phase I: Project Plan and Feasibility Analysis
- 19 • Phase II: Comprehensive Analysis
- 20 • Phase III: Final Feasibility, Approval, and
- 21 Implementation

The preliminary screening identifies candidate utility systems.

22 Preliminary Screening of Programmed Utility 23 Systems

24 The privatization process begins with a preliminary
25 screening of programmed utility systems to identify
26 privatization candidates. This preliminary screening
27 includes the following:

- 28 • Revalidating that no adverse effects on mission
29 readiness would exempt a utility system from
30 privatization.
- 31 • Revalidating that no unique security requirements
32 would exempt a utility system from privatization.

33

Phase I validates the project.

34 Phase I: Project Plan and Feasibility Analysis

35 Once candidate utility systems are revalidated, the first
36 phase of the privatization process begins. Phase I validates
37 the project and includes the following:

- 1 • Developing a Project Plan
- 2 • Conducting a Utility Requirements Assessment
- 3 • Conducting an Operational Impact and Risk
- 4 Management Analysis
- 5 • Determining the impact of any applicable state and
- 6 local regulation on the process, potential owner, and
- 7 transfer
- 8 • Conducting an Industry Market Analysis
- 9 • Conducting a Preliminary Economic Analysis
- 10 1. Establishing 25-year status quo cash flow
- 11 – Renewal and replacement costs
- 12 – New construction costs
- 13 – Adjusted operating costs
- 14 2. Establishing 25-year privatization cash flow
- 15 – Estimated purchase price
- 16 – Estimated utility service rates
- 17 3. Performing a life-cycle cost analysis
- 18 – Net present value (NPV) analysis on 25-
- 19 year cash flows
- 20 • Preparing a Feasibility Analysis Report, which
- 21 contains the analyses performed under Phase I and
- 22 justifies continuing on to Phase II or eliminating the
- 23 utility from further consideration
- 24 • Conducting reviews and implementing a “go/no-go”
- 25 decision

26 **Phase II: Comprehensive Analysis**

*Phase II defines the terms
and conditions.*

27 Once Phase I is approved by the MAJCOM, Phase II is
28 initiated. Phase II includes the steps necessary to perform
29 the Comprehensive Analysis, which defines the terms and
30 conditions of the proposed privatization. Phase II also
31 includes developing the Draft RFP. This phase includes
32 the following:

- 33 • Reviewing the Project Plan and Feasibility Analysis
- 34 Report from Phase I

- 1 • Complying with the EIAP
- 2 • Developing draft real estate instruments, using
- 3 templates provided by HQ USAF
- 4 • Developing draft transition plans
- 5 • Preparing an Acquisition Plan
- 6 • Preparing a Source Selection Plan (SSP) and
- 7 establishing the Source Selection Evaluation Team
- 8 (SSET)
- 9 • Preparing the Draft RFP, using the templates provided
- 10 by HQ USAF
- 11 • Preparing a Draft Comprehensive Analysis Report
- 12 • Conducting reviews and gaining approvals

13 **Phase III: Final Feasibility, Approval, and**
14 **Implementation**

*Phase III completes the
process.*

15 Following review and approval of Phase II plans, Phase III
16 of the utilities privatization process completes the process.
17 This final phase includes the following:

- 18 • Reviewing the Project Plan, Feasibility Analysis, and
- 19 Comprehensive Analysis
- 20 • Finalizing the RFP
- 21 • Preparing and issuing the *Commerce Business Daily*
- 22 (CBD) announcement for the project
- 23 • Updating status quo costs developed during Phase I
- 24 • Issuing the RFP and conducting the site tour
- 25 • Conducting a Qualification Process (Step 1)
- 26 – Identifying qualified firms
- 27 – Requesting technical and cost proposals from
- 28 qualified firms
- 29
- 30 • Conducting a Technical Evaluation Process (Step 2)
- 31 – Receiving and evaluating technical and cost
- 32 proposals

- 1 – Holding discussions with offerors
- 2 – Preparing final revised proposals by offerors
- 3 – Reviewing final revised proposals
- 4 • Selecting the successful offeror
- 5 • Preparing a Draft Economic Analysis
- 6 • Preparing the Certified Economic Analysis
- 7 • Finalizing transition plans
- 8 • Finalizing draft real estate instrument(s)
- 9 • Preparing and submitting the project Approval
10 Package for SAF/MII approval and Congressional
11 notification
- 12 • Awarding the contract and implementing transition
- 13 • Conducting an EBS, if determined necessary, to assess
14 the condition of the property and sharing the cost with
15 the new owner
- 16

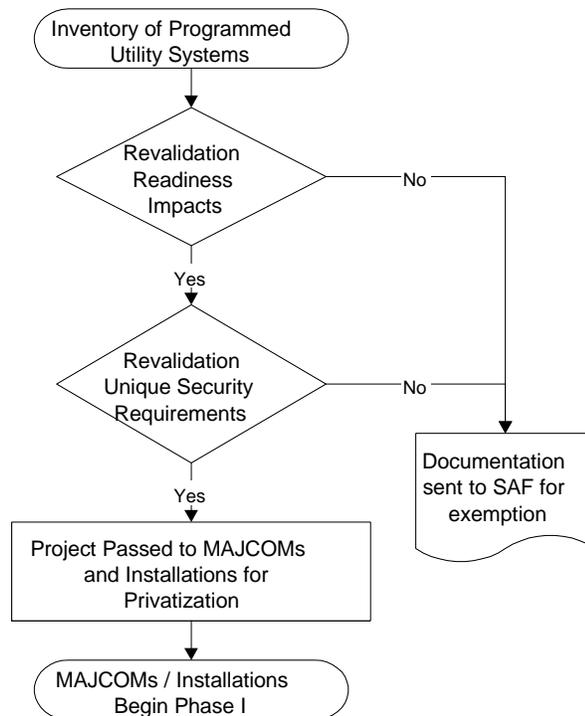
1 **Preliminary Screening of Programmed**
 2 **Utility Systems**

3
 4 *As systems are funded, they*
 5 *will be revalidated to ensure*
 6 *no change in eligibility.*
 7

3 It is anticipated that utility systems initially identified as
 4 passing the DRID criteria for readiness and security
 5 impacts will be programmed for privatization analysis
 6 over the Future Years Defense Plan (FYDP). As these
 7 systems are funded for analysis, they will be revalidated to
 8 ensure there has not been a change in eligibility during the
 9 interim period.

10 These Air Force programmatic level revalidations are
 11 illustrated in **Figure 3.1**.

12 **FIGURE 3.1**
 13 Preliminary Screening of Programmed Utility Systems



14 Figure 3.1 Preliminary Screening of all Utility Systems

15 **Readiness Revalidation**

16 HQ USAF performs readiness revalidation. This
 17 revalidation includes verifying that privatizing the utility
 18 system will have no adverse effect on staffing for
 19 contingency operations.

1 **Unique Security Revalidation**

2 Unique security revalidation is performed by HQ USAF.
3 This unique security revalidation includes verifying the
4 following:

- 5 • Ownership of the utility system by a private entity
6 would not impair the installation's mission.
- 7 • Ownership of the utility system by a private entity
8 would not compromise classified operations or
9 property.

10 **Initiate Privatization Process**

11 Utility systems that pass revalidation will continue
12 through the following utilities privatization process:

- 13 • Phase I: Project Plan and Feasibility Analysis
- 14 • Phase II: Comprehensive Analysis
- 15 • Phase III: Final Feasibility, Approval, and
16 Implementation

17 These three phases are the focus of the remainder of this
18 policy and guidance.

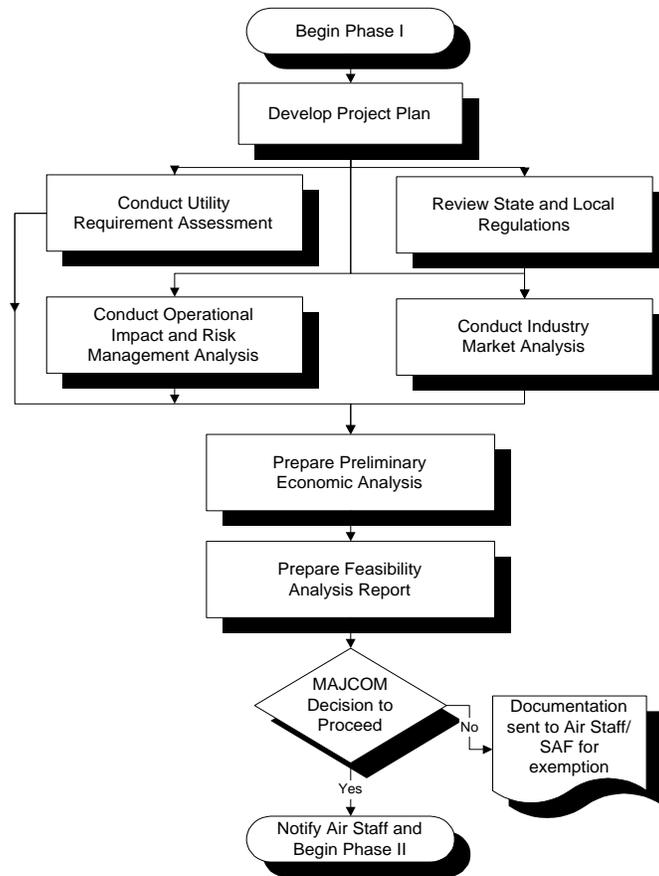
19

1 **Phase I: Project Plan and Feasibility**
 2 **Analysis**

The lead for developing the project will be the Installation Civil Engineer.

3 This phase of the utilities privatization process is executed
 4 at the installation level, with or without contractor
 5 support. Typically, the lead for developing the project will
 6 be the Installation Civil Engineer under the guidance of
 7 the Installation/Wing Commander. Phase I is illustrated
 8 by **Figure 3.2**.

9 **FIGURE 3.2**
 10 Phase I of the Utilities Privatization Process



11 Phase I is completed with a key decision point for the
 12 installation and MAJCOM. The objective of Phase I is to
 13 determine that privatization is both viable and economic
 14 and that an award will likely be made. If it is determined
 15 that, based on the Preliminary Economic Analysis
 16 described herein, the project should not proceed, rationale
 17

1 for this finding must be provided via the MAJCOM and
2 AF/ILEI to SAF/MII.

3 The following describes each major step in this initial
4 phase of the utilities privatization process.

5 **Project Plan**

6 The Project Plan is the first step and describes the
7 following:

*The Project Plan is the first
step.*

- 8 • Project scope
- 9 • Installation utilities privatization team members and
10 their responsibilities
- 11 • Communications plan with a list of points of contact
- 12 • Project schedule
- 13 • Additional resources, if required, to execute the project

*The Project Plan provides
for 360-degree
communications.*

14 Of key importance is establishing the installation utilities
15 privatization team with representatives from real estate,
16 cost and finance, community planning, legal,
17 environmental, engineering, contracting, public affairs,
18 and manpower. As part of project planning, it is essential
19 to establish 360-degree communications. Contacts at the
20 MAJCOM, AF/ILEI, HQ AFCESA, and HQ AFCEE should
21 be established to coordinate project development and gain
22 technical and resource assistance.

23 Communication with the affected employees and their
24 labor union representatives should be established. The
25 local community should also be apprised of the situation
26 at the appropriate level. Typically, elected officials should
27 be briefed on the prospect of utilities privatization, its
28 purpose, potential benefits, and impact on their
29 constituents. Regular contact with community leaders and
30 employees will provide warning of potential concerns and
31 instill trust. Be cautious, however, not to divulge
32 information to local officials that also represent local
33 publicly-owned utility concerns if that information would
34 not also be available to other potentially interested parties.
35 Local utility companies cannot be given an unfair
36 advantage, even if only by advance notice, as a result of
37 having special access to information through their local
38 officials.

39 The format of the Project Plan is outlined in **Appendix E**.

The Utility Requirement Assessment is the basis for the privatization project.

1 **Utility Requirement Assessment**

2 The basis for the utilities privatization project is the utility
3 requirement of the installation. Utility requirements must
4 be assessed to ensure that they are addressed by the
5 utilities privatization project. These requirements are
6 assessed by quantifying the impact of planned
7 construction and mission changes and adjusting the utility
8 requirement appropriately. Provisions for some
9 contingencies should also be included. Once the utility
10 requirement is known, it should be used to determine
11 whether adequate system capacity exists (including room
12 for marginal load growth), excess capacity exists that
13 might have some value to the competitors for the system,
14 or the system can be abandoned and the service provided
15 by existing utilities or other entities off base.

The Operational Impact Analysis uses operational risk management processes.

16 **Operational Impact and Risk Management Analysis**

17 The uncertainty associated with utilities privatization
18 creates potential operational impacts or hazards to various
19 Air Force missions. The principles outlined in Air Force
20 Pamphlet (AFP) 91-215, Operational Risk Management
21 Implementation and Execution, provide an effective
22 mechanism to identify and choose the optimum course of
23 action for implementing the utilities privatization
24 initiative at both the programmatic and installation levels.

25 The Air Force Council Privatization IPT applied the
26 operational risk management procedures to conduct a
27 tabletop utilities privatization vulnerability assessment (A
28 copy of this assessment is provided in **Appendix F**). The
29 IPT focused on five major vulnerability categories:

- 30 • Readiness
- 31 • Security
- 32 • Quality and availability
- 33 • Installation population
- 34 • Government liability

35 The IPT concluded that sufficient measures are in place to
36 identify the hazards to mission operating capabilities.
37 Additionally, the IPT found that appropriate policies are
38 in place to eliminate unacceptable risk by exempting
39 utility systems from privatization when readiness or
40 “unique security reasons” require Air Force ownership.

The proper risk assessment during the planning stages allows the potential hazards to be identified, the risk assessed, and control measures analyzed.

1 However, to enhance the mitigation of other risk, the IPT
 2 recommended developing standard contract clauses to
 3 apply effective control measures and reduce the three
 4 components (probability, severity, and exposure) of risk.

5 The privatization process also requires a mission-specific
 6 Operational Impact Analysis prior to the privatization of
 7 any utility system. Risk management decisions made at
 8 the appropriate level establish clear accountability.
 9 Therefore, it is imperative that those accountable for the
 10 success or failure of the mission be included in the risk
 11 analysis. With the risk management practices discussed
 12 above in place at the programmatic level, the framework is
 13 established to apply the principles of operational risk
 14 management at the installation. The steps for
 15 implementing this evaluation are shown in **Appendix F**.
 16 Integrating the proper risk assessment during the
 17 planning stages allows the potential hazards to be
 18 identified, the risk assessed, and control measures
 19 analyzed. Decision-makers at the appropriate level should
 20 choose the appropriate controls based on the analysis of
 21 overall costs and benefits. When the costs outweigh the
 22 benefits, some risk may be accepted. Ultimately, the
 23 control measures implemented in the real estate
 24 instruments and utility service contract will be reflected in
 25 the contract cost and the determination of the privatization
 26 project's economic viability.

State and local regulation cannot limit competition.

27 **State and Local Regulatory Review**

28 This review determines whether the state's Public Utility
 29 Commission, State Corporation Commission, or similar
 30 regulatory body has jurisdiction over operating the utility
 31 system to be privatized. The DoD has determined that, as
 32 a matter of law, there are few if any circumstances where
 33 the state will have regulatory authority over the selection
 34 of a utility system owner or service provider. If the
 35 installation believes it has such a unique situation, it
 36 should contact SAF/GCN, through AF/ILEI, to discuss
 37 the matter.

The Industry Market Analysis determines whether competition is likely.

38 **Industry Market Analysis**

39 To determine whether privatizing a particular utility
 40 system is feasible, it is necessary to determine if there are
 41 potential purchasers in the marketplace. The Industry
 42 Market Analysis determines whether there is likely to be

- 1 competition for the purchase of the utility system. The
- 2 Industry Market Analysis should proceed as follows:
- 3 1. Contact all local utilities in writing, describing the
- 4 privatization project and asking for a letter response
- 5 expressing whether they have any interest in
- 6 proposing.
- 7 2. Contact other nationally known companies actively
- 8 engaged in the provision of the utility commodity,
- 9 describing the privatization project and asking for a
- 10 letter response expressing whether they have any
- 11 interest in proposing.
- 12 3. Publish a description of the project and formal Request
- 13 for Interest (RFI) in the CBD.
- 14 4. Letters of interest alone may not constitute
- 15 competition. Requests for non-binding business
- 16 concept proposals from entities demonstrating interest
- 17 may be warranted if they are deemed to be beneficial.
- 18 Information requested in the non-binding proposal
- 19 should include the proposed purchase price, proposed
- 20 service rates, suggested approaches to renovating the
- 21 system if required, the estimated cost of the
- 22 renovation, and the cost to operate, maintain, and
- 23 renew the existing or renovated system over time.

24 **Preliminary Economic Analysis**

25 The Preliminary Economic Analysis will compare status
 26 quo cost of owning and operating the system versus the
 27 privatization alternative. This requires developing cash-
 28 flow projections for both status quo and privatization and
 29 performing a life-cycle cost analysis on both alternatives.

30 **Status Quo Cash-Flow**

31 The components of the status quo cash-flow are defined by
 32 renewal and replacement costs, new construction costs,
 33 and adjusted current operating costs.

34 One component of the status quo cash-flow projections is
 35 determining initial capital renewal and replacement costs
 36 based on the value and age of the existing utility plant.
 37 This is accomplished by performing the following:

- 38 • Establish an inventory of the utility system
- 39 • Perform a facility condition assessment on the
- 40 inventoried system to include a physical inventory

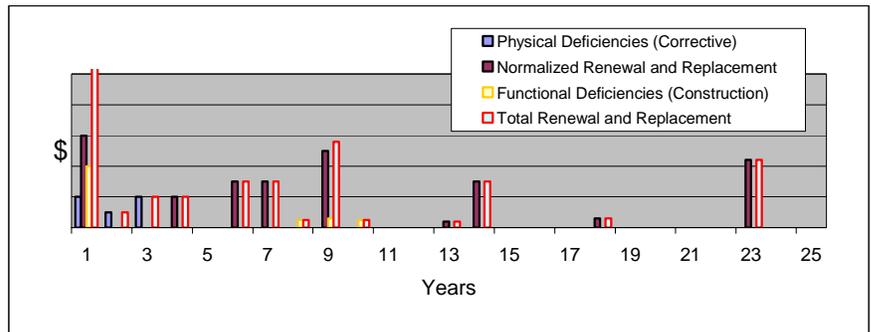
*The Preliminary Economic
 Analysis will compare status
 quo cost of owning and
 operating the system versus
 the privatization alternative.*

*One component of the status
 quo cash-flow projections is
 determining capital renewal
 and replacement costs.*

- 1 review and spot check to confirm the system and its
- 2 condition and maintenance and repair backlog;
- 3 information should be developed so that a facility
- 4 condition index can be ascribed to each system
- 5 • Establish renewal and replacement costs based on the
- 6 assessment making sure deficiency corrections are not
- 7 double counted. Status Quo Renewal & Replacement
- 8 costs are to be shown in the year required.

9 The renewal and replacement cost analysis should be as
 10 accurate as possible, however, some engineering judgment
 11 may be required. **Figure 3.3** shows the components of
 12 renewal and replacement cash flow.

13 **FIGURE 3.3, Renewal and Replacement Cost Development**



- 14
- 15 **Inventory the utility system.** An inventory will establish
 16 a list of system assets and determine the cost to replace
 17 each asset. If a different configuration or technology
 18 would be used in the replacement, its cost, rather than that
 19 for exact replacement of existing facilities, should be
 20 estimated. The cost of replacing assets should be
 21 determined by using *Historical Air Force Construction Cost*
 22 *Handbook* supplemented by RS Means® cost-estimating
 23 publications. Life expectancy can be taken from
 24 manufacturers' literature or other life-cycle cost
 25 publications.

The facility condition assessment will identify the system's current physical deficiencies that must be corrected.

- 1 • **Facility condition assessment.** This assessment will
- 2 identify the system's current physical deficiencies that
- 3 must be corrected to bring the utility system to
- 4 industry standards. Assessing the facility condition
- 5 should be accomplished through conducting a visual
- 6 inspection of major components, reviewing
- 7 maintenance records, reviewing out-of-service records,
- 8 and reviewing standard O&M procedures. The
- 9 timeline for correcting the deficiencies—which will be
- 10 determined for each specific utility, deficiency, and
- 11 funding constraints—could range from two to seven
- 12 years or more.

RCN is used to determine long-term system renewal costs.

13

14 **New Construction.** Based on the results of the Utility

15 Requirements Assessment and the regulatory review, the

16 system's functional deficiencies that will require

17 expansion for future loads or process enhancements to

18 meet expected changes in regulatory permitting

19 requirements should be identified. New construction

20 costs to meet these requirements should be estimated

21 based on the cost of similar construction and factored into

22 the cash flow when the requirement must be in place.

23 Only construction or demolition projects that are currently

24 funded shall be included in the analysis.

Another major contributor to the cash-flow projection is costs associated with operating the utility.

25 **Adjusted Current Operating Costs.** Another major

26 contributor to the cash-flow projection is costs associated

27 with operating the utility. Operating costs include

28 operations, maintenance, and general and administrative

29 costs. Typically, these costs are not maintained in one set

30 of books at the installation. It is, therefore, necessary to

31 obtain the information through a detailed review of

32 financial records kept at the installation and interviews

33 with key personnel to verify cost data and to be sure that

34 all costs are included in the overall estimated cost of

35 service. Financial records on utility operating costs vary

36 from installation to installation. **Appendix G** includes a

37 general approach for calculating the overall cost of service

38 for any given utility and four case studies.

<p><i>Adjusted current operating costs include operations, maintenance, and general and administrative costs.</i></p>	<p>1 Once the status quo costs are determined, adjustments 2 may be required based on the results of the facility 3 condition assessment, Utility Requirements Assessment, 4 and the regulatory review.</p> <p>5 Evaluating the cash-flow projection for O&M should also 6 include reviewing the current O&M practices of the status 7 quo to determine if the system is being adequately 8 operated and maintained. This can be accomplished by 9 comparing the current O&M practices to industry 10 standards or manufacturer’s recommendations for O&M. 11 The status quo costs should be adjusted to account for 12 under-funded or inadequate O&M procedures according 13 to the following:</p> <ul style="list-style-type: none"> 14 • Identify and quantify the deficiencies in the current 15 status quo O&M. 16 • Develop a factor for increasing the status quo costs to 17 account for proper O&M (e.g., if it were determined 18 that 10 percent of the proper O&M procedures were 19 not being followed, the factor would be 1.1). 20 • Multiply the current cash-flow projections for status 21 quo O&M by the correction factor. 22 • A-76 MEO labor hours and costs can only be used as 23 the starting point for determining the Status Quo O&M 24 costs if the base has completed the A-76 process and 25 performed a full year of O&M service. In this case the 26 MEO labor hours and costs can be used as the starting 27 point for Status Quo labor costs if they are clearly 28 identified in the MEO for the utility systems being 29 privatized. Adjustments will have to be made to the 30 labor costs to reflect current AFI 65-503, Table A30-1, 31 Retirement and other Personnel Benefits Acceleration 32 Factors. Other costs in the MEO may also be used so 33 long as they are clearly identified in the MEO with the 34 utility system being privatized. These other costs must 35 be adjusted to reflect the Utility Privatization Policy 36 and Guidance procedures including, but not limited to; 37 adjusting/including all vehicle costs (O&M, fuel, 38 purchased cost of the vehicles, etc.); 39 adjusting/including facility costs (O&M, Real Property 40 Services, construction cost of the facilities, etc.); 41 including supporting utilities and environmental costs; 42 etc. Adjustments to the MEO numbers will also have 43 to be made to account for should costs in accordance
---	--

1 with Utility Privatization Policy and Guidance.”

2 **Privatization Cash-Flow Costs**

3 Privatization cash-flow comprises the estimated purchase
4 price and estimated service rates.

*RCNLD will provide a basis
for an estimated purchase
price.*

5 Ultimately, the fair market value of the utility system will
6 be determined by the SECAF during Phase III of the
7 privatization process. However, to perform the
8 Preliminary Economic Analysis, an estimated value of the
9 utility system is established and assumed to be the
10 purchase price of the system. Using a similar
11 methodology as that used for developing the renewal and
12 replacement costs will provide an estimated purchase
13 price. This similar method uses the replacement cost new
14 (RCN) for the inventoried components and applies a factor
15 for depreciation based on the age of each component. This
16 method, commonly referred to as replacement cost new
17 less depreciation (RCNLD), will provide a basis for an
18 estimated purchase price. Unless another method for
19 estimating the purchase is identified through regulatory
20 review, the RCNLD method should be used. The
21 estimated purchase price is assumed to reflect the price a
22 privatizing entity would pay the Air Force for the
23 acquisition of the utility assets.

24 The estimated purchase price of a utility system is highly
25 dependent on many other intangible factors (e.g., demand
26 and location). The estimated purchase price should be
27 adjusted, based on some engineering judgment, to account
28 for these intangible factors. Establishing an estimated
29 purchase price using the RCNLD method, even when
30 adjusted for intangibles, is somewhat subjective.

31 Thoroughly documenting the estimated purchase price
32 development is very important and must be performed.

*The estimated service rate
includes only the costs
associated with operating
and maintaining the utility.*

33 Information collected via the state and local regulatory
34 reviews and the Industry Market Analysis should be used
35 to help develop estimated service rates. These estimated
36 service rates will be used to project a cash-flow for the
37 privatization alternative. The estimated service rate
38 includes only the costs associated with operating and
39 maintaining the utility system and not the utility
40 commodity itself. In general, the utility commodity cost
41 will be procured directly by the Air Force separately from
42 the privatization action. However, the analysis will look
43 at potential impacts to commodity costs resulting from

1 privatization and “unbundling” service to the installation
 2 (assuming it is currently bundled in some fashion).
 3 Estimated service rates should be developed based on
 4 information obtained through the Industry Market
 5 Analysis and interviews with prospective offerors and
 6 local utilities. Information regarding expected service
 7 rates may not be easily obtained. Under this scenario,
 8 some investigative work may be required to establish
 9 reliable estimates for the service rates in a particular
 10 market. In these cases, developing an estimated rate may
 11 require engineering and economic judgment using the
 12 established operating costs and replacements values.
 13 Consult experts in the respective utility field for
 14 establishing estimated service rates.

15 **Perform Life-Cycle Cost Analysis**

The life-cycle cost analysis compares projected 25-year cash flows for the status quo and privatization alternatives.

16 The life-cycle cost analysis must conform to guidelines
 17 specified in OMB Circular A-94 and AFM 65-506. It
 18 should compare projected 25-year cash flows for the status
 19 quo and privatization alternatives using to the following
 20 steps:

- 21 1. Establish a cash-flow projection for maintaining the
 22 status quo alternative. This cash-flow projection
 23 incorporates costs associated with current operations,
 24 adjusted for underfunded or inadequate O&M, and
 25 renewal and replacement costs. The process for
 26 developing these costs was described above.
- 27 2. Establish a cash-flow projection for the assumed
 28 privatization alternative. This cash-flow projection
 29 incorporates costs associated with the sale of the utility
 30 system (estimated purchase price) and the purchase of
 31 utility service from the new owner (estimated service
 32 rates). The process for developing these costs was
 33 described above.
- 34 3. Conduct NPV analysis of the status quo and
 35 privatization alternatives to determine the least cost
 36 alternative.

37 A simplified example of the privatization economics
 38 analysis is provided in **Appendix H**. Appendix H is
 39 intended to be solely a simplified example of a preliminary
 40 cost analysis for a typical privatization project.
 41 Preliminary economic analyses will provide the basis for
 42 making a determination of feasibility for privatization

1 resulting in a decision to proceed to Phase II of the
2 privatization process.

3 **Feasibility Analysis Report**

4 Once all Phase I analyses and the Preliminary Economic
5 Analysis are completed, the Feasibility Analysis Report is
6 assembled and submitted to the MAJCOM and HQ USAF.
7 This report includes all analyses performed to demonstrate
8 the economic viability of the project and recommends
9 continuing on with Phase II of the project or eliminating
10 the utility from further privatization considerations.

11 The Feasibility Analysis Report must contain all necessary
12 information required to evaluate the viability of the
13 project. The outline for the Feasibility Analysis Report is
14 provided in **Appendix E**.

15 **Review and “Go/No-Go” Decision**

16 The final decision point in Phase I is whether to commit
17 additional resources to further define the project and
18 develop the RFP. In order to proceed to Phase II,
19 MAJCOM review of the project must be obtained, and a
20 “go/no-go” decision must be made. Following that
21 decision, HQ USAF is notified that the project is
22 proceeding to Phase II or that privatization is not feasible.

*Justification for terminating
the process before
competition will be
submitted to SAF/MII for
approval.*

23 If the Operational Impact and Risk Management Analysis
24 or Preliminary Economic Analysis appears to justify
25 maintaining Air Force ownership and operation, the
26 findings must be documented and presented to HQ USAF
27 for review. If HQ USAF agrees with this recommendation,
28 AF/ILEI will prepare an Approval Package for SAF/MII.
29 If HQ USAF does not agree with this recommendation, the
30 recommendation will be revised to proceed with Phase II
31 of the privatization process.

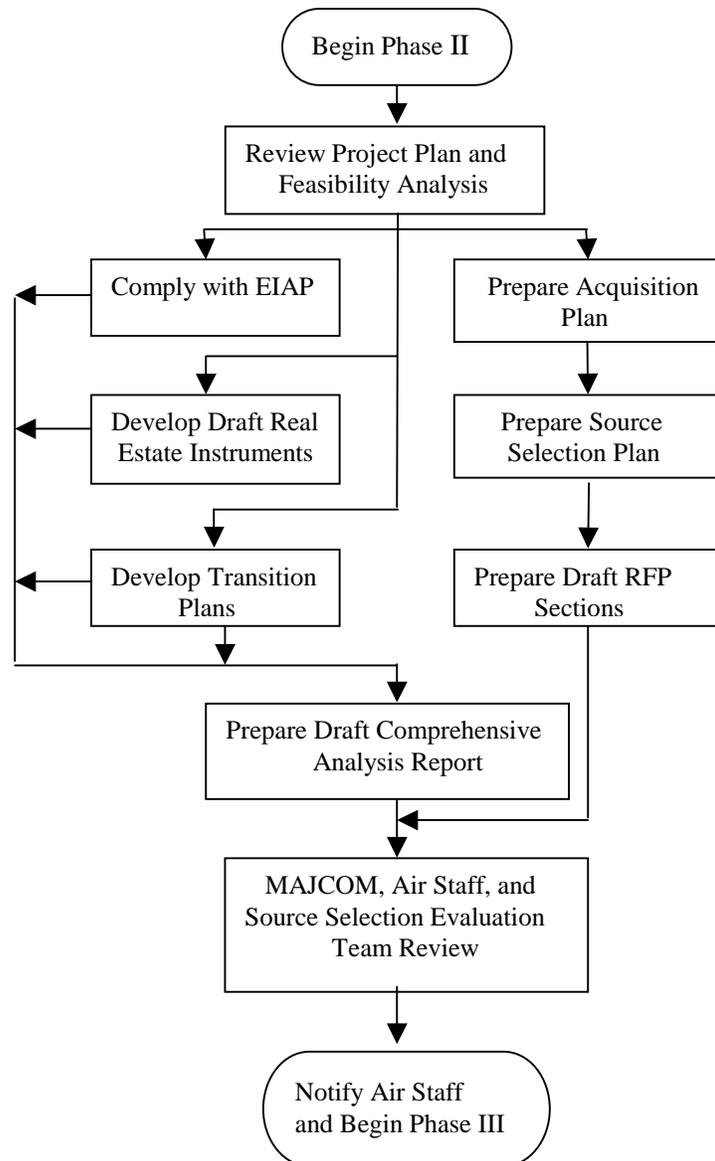
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Phase II leads to RFP development.

Phase II: Comprehensive Analysis

Once the preliminary feasibility of the project is confirmed, Phase II of the utilities privatization process begins. This phase of the process includes performing any required environmental impact analysis, preparing draft transition plans, preparing property conveyance instruments, developing an Acquisition Plan, preparing an SSP, and drafting the RFP. Phase II is illustrated in **Figure 3.4**.

FIGURE 3.4
Phase II of the Utilities Privatization Process



1

2 Phase II is completed with a detailed review and approval
 3 of the Draft Comprehensive Analysis Report, including
 4 the draft transition plans, and the Draft RFP. The
 5 following describes each major step of Phase II.

6 **Project Plan and Feasibility Analysis Report Review**

7 Based on the findings during the Feasibility Analysis, the
 8 Project Plan should be reviewed to ensure budget,
 9 schedule, personnel, and points of contact are updated
 10 and appropriate.

11 **Environmental Impact Analysis Process**

12 Environmental analysis is required to comply with the
 13 National Environmental Policy Act (NEPA) and is
 14 performed in accordance with AFI 32-7061.

*The EIAP is the Air Force
 process to meet NEPA
 requirements.*

15 Privatizing utility systems should generally qualify for a
 16 categorical exclusion (CATEX). There will also be
 17 instances where a CATEX will not apply, in which case an
 18 environmental assessment or environmental impact
 19 statement (EIS) may be necessary. The detailed
 20 procedures for the EIAP are described in AFI 32-7061.

21 **Draft Property Transfer Instruments**

*Property transfer
 instruments
 must be executed
 concurrently with the
 utility service contract.*

22 There will typically be three documents that define the
 23 relationship with the new utility provider:

- 24 • Utility service contract resulting from the solicitation
- 25 • A Bill of Sale describing the property being conveyed,
 26 including an inventory of the equipment and
 27 structures.
- 28 • A Right-of-Way detailing the new owner's rights
 29 relating to access to its utility system and describing
 30 the extent of the lands covered by the access rights.
 31 The Right-of-Way is an attachment to the RFP.

32 The provisions of the Bill of Sale and the Right-of-Way
 33 supersede the provisions of the contract if there is a
 34 conflict. This is to help mitigate risk by ensuring that
 35 access to the installation, and the operational security it
 36 protects, are not inadvertently lost during routine changes
 37 in the contract. Additionally, the Bill of Sale is permanent
 38 and the term of the Right-of-Way will always be at least as

Restrictions embedded in property transfer instruments serve to mitigate risk

The Air Force will support its employees through the transition process.

1 long as the contract and may be longer (and is subject to
 2 renewal). These documents must be executed
 3 concurrently although the Bill of Sale and the Right-of-
 4 Way will not become effective until the contract start date.
 5 As a result, if there is any problem with or during
 6 transition, actual ownership will not have transferred.

7 Real estate is a highly specialized field, and advice in this
 8 area should be sought from HQ AFREA. Use the template
 9 Bill of Sale and Right-of-Way provided by HQ USAF.
 10 Changes to either of those documents must be approved in
 11 advance by SAF/GCN, through AF/ILEI, as deviations.

12 **Draft Transition Plans**

13 The following are three key transition plans that should be
 14 developed during Phase II so that their requirements can
 15 be reflected in the RFP:

- 16 • **Employee Transition Plan.** Planning to mitigate the
 17 impact of privatization on the lives of Air Force
 18 employees is Air Force policy, and it will significantly
 19 increase the prospects for project success. The
 20 manpower representative on the project team should
 21 determine the potential impact on employees and
 22 provide detailed guidance on reduction-in-force
 23 procedures if necessary. This information will provide
 24 the basis for an Employee Transition Plan. The plan
 25 should include the following activities:
 - 26 – Coordinating with the unions representing affected
 27 employees as soon as any significant prospect of
 28 privatization is identified
 - 29 – Communicating the schedule and conditions for
 30 the potential transfer and transition assistance
 31 available to affected employees as early as possible
 32 in the process and continuously thereafter
 - 33 – Submitting requests for separation incentive and
 34 early retirement authorizations
 - 35 – Setting up out-placement and job transition
 36 assistance
 - 37 – Explaining that OMB Circular A-76 does not apply
 38 to utilities privatization
 - 39 – Addressing employee rights with regard to
 40 employment with the new owner

An Operational Transition Plan should be a required part of the offeror's technical proposal.

1 • **Operational Transition Plan.** Once the Air Force has
 2 determined which elements are essential, the RFP
 3 should require a contractor-developed Operational
 4 Transition Plan that addresses each element of
 5 operational transfer as part of the technical proposal.
 6 It is important that a cooperative spirit be
 7 demonstrated between the system's current and future
 8 owners and operators. A plan with well-
 9 communicated procedures and expectations will help
 10 ensure a smooth operational transition. The
 11 Operational Transition Plan should include the
 12 following activities:

- 13 – Scheduling transfer of system O&M, including a
 14 period of joint operation or on-site training for
 15 new employees and supervisors
- 16 – Scheduling construction or installation of any
 17 connection requirements, such as meters,
 18 pipelines, feeders, switch gear, and transformers,
 19 and any associated outages
- 20 – Transferring or modifying environmental permits,
 21 if appropriate (often takes six months or more)
- 22 – Conducting joint inventories of personal property
 23 to be transferred, such as special tools, equipment,
 24 and spare parts
- 25 – Providing operations manuals and maintenance
 26 records
- 27 – Recording initial meter readings for billing
 28 purposes

The Post-Award Management Plan falls under the authority of the Contracting Officer.

29 • **Post-Award Project Management Plan.** Most of this
 30 work will fall under the authority of the Contracting
 31 Officer as part of the acquisition strategy, but it should
 32 include establishing a Post-Award Project
 33 Management Team, which will be responsible for the
 34 following:

- 35 – Providing quality assurance/quality control
 36 (QA/QC)
- 37 – Serving as a customer relations liaison
- 38 – Assessing contractor performance annually or
 39 more frequently if required by the contract
- 40 – Verifying services received

- 1 – Processing payments
- 2 – Determining when the contract requirements are
- 3 met for the purpose of financial close-out

4 Note that under privatization, plant ownership will be
 5 transferred to the successful offeror who may or may not
 6 be regulated. Any terms and conditions ensuring that the
 7 Air Force’s interests are protected must be included in the
 8 property transfer instruments or in the contract. The Post-
 9 Award Project Management Plan must ensure that
 10 contract and Right-of-Way conditions are met.

11 **Acquisition Plan**

*The acquisition strategy for
 utilities privatization should
 be a best-value source
 selection made in accordance
 with , AFFARS Part 15.*

12 Using the uniform templates provided by HQ USAF, the
 13 Installation Contracting Officer is responsible for
 14 completing development of the contract vehicle, which
 15 will procure utility services after privatization, and
 16 establish the long-term relationship of the utility provider
 17 so that potential privatization concerns can be mitigated.

18 The following briefly outlines the acquisition strategy for
 19 the benefit of the utilities privatization process
 20 participants who may be unfamiliar with it.

21 The privatization acquisition strategy should be a best-
 22 value source selection made in accordance with Air Force
 23 Federal Acquisition Regulation Supplement (AFFARS),
 24 Part 15, from proposals that first demonstrate economic
 25 savings to the Air Force in their respective proposals. This
 26 meets the requirements of 10 USC § 2688 for lower long-
 27 term costs. Since 10 USC § 2688 requires the privatization
 28 be economical in accordance with the terms of the statute,
 29 no award may be made that will not meet the
 30 requirements of the economic analysis required to be sent
 31 to Congress. Once the SSET identifies those offerors that
 32 appear to meet that economic test, an award may then be
 33 based on best value. There is no requirement to award to
 34 the best price. The Contracting Officer must prepare an
 35 Acquisition Plan that describes the acquisition strategy.

*The Acquisition Plan should
 be developed in accordance
 with FAR Part 7.105.*

36 The Acquisition Plan should be developed in
 37 accordance with FAR Part 7.105, Acquisition
 38 Planning. Considering all aspects of the planning
 39 and acquisition process, the Acquisition Plan should
 40 address the following. The list below is not all
 41 inclusive. Refer to FAR Part 7.105 for specific areas
 42 of the acquisition plan.

- 1
- 2 • **Statement of Need.** Present a statement of need that
- 3 summarizes the purpose for the acquisition and
- 4 feasible alternatives to the acquisition. See RFP
- 5 template.
- 6 • **Applicable Conditions.** State the requirements for
- 7 compatibility with existing and future programs,
- 8 including the Housing Privatization Program, discuss
- 9 method of conveyance of property, and discuss
- 10 applicable installation specific requirements that
- 11 should be reflected in the property transfer
- 12 instruments. See RFP template.
- 13 • **Cost.** State the cost goals of the acquisition, discuss
- 14 how life-cycle cost will be considered, and discuss how
- 15 should-cost figures into the acquisition.
- 16 • **Performance.** State the performance objectives of the
- 17 acquisition, and discuss how privatization will affect
- 18 utility service performance to the end users.
- 19 • **Contract Type.** State the contracting type and method
- 20 that will be used and how goals and objectives of
- 21 privatization will be achieved. See RFP template.
- 22 • **Risks.** Discuss technical, cost, and schedule risks that
- 23 are involved with privatization, and describe what
- 24 efforts will mitigate the risk.
- 25 • **Competition.** Discuss how competition will be sought,
- 26 promoted, and sustained throughout the acquisition
- 27 process, and discuss incentives and disincentives that
- 28 should be considered for the RFP.
- 29 • **Logistics Considerations.** Discuss the reliability,
- 30 maintainability, and QA issues that will be required by
- 31 the RFP. A Post-Award Management Plan should be
- 32 required to address these issues as part of the RFP. See
- 33 RFP template.
- 34 • **Milestones.** Present the acquisition strategy and steps
- 35 to achieving contract award. Special consideration
- 36 should be given to providing the offerors sufficient
- 37 time to develop quality offers even if that means
- 38 longer than usual proposal periods. Because of the
- 39 length of the contract period and the extreme
- 40 complexity of the action, it is highly desirable to

1 receive the best offers we can, even if that requires
2 more investment of time at the start.

3 The Final Acquisition Plan will be a comprehensive plan
4 that fulfills the Air Force needs in a timely and cost-
5 effective manner and contains the overall strategy for
6 managing the acquisition process. The overall strategy
7 presented in the Acquisition Plan will precipitate the
8 individual requirements in the RFP. If an issue is
9 important, identify it in the Acquisition Plan and RFP and
10 require that it be specifically addressed in the technical
11 proposal prepared by the offeror.

12 Source Selection Plan

*The SSP is a key document
in conducting source
selection.*

13 A Source Selection Plan (SSP) is required. The SSP, a key
14 document in conducting source selection, should be jointly
15 developed by contracting personnel and personnel
16 responsible for the requirement. For privatization projects,
17 the Divestiture Authority has been delegated to SAF/MII,
18 but the SSA for the utility services has been delegated in
19 accordance with FAR contract value standards. Because of
20 this, the Divestiture Authority and the SSA will almost
21 certainly not be the same person. Since the acquisition of
22 utility services cannot take place without the sale of the
23 system, the SSA can only make a preliminary selection
24 subject to approval of the Divestiture Authority.
25 Nevertheless, the SSA should proceed as though this were
26 a typical acquisition, with the understanding that final
27 approval will be made by SAF/MII.

28 The SSP must be submitted sufficiently in advance of the
29 planned acquisition to facilitate review and approval by
30 the SSA and establishment of the source selection
31 organization. Any revisions to the SSP must be submitted
32 for review and approval by the SSA.

33

34 The SSP should contain the following:

- 35 • **Introduction.** This briefly describes what is being
36 acquired and the goals and objectives of the
37 acquisition.
- 38 • **Source Selection Organization.** This section describes
39 the SSA and SSET organizations (including
40 Government and non-Government advisors). Key
41 members must be identified by name, organization,

1 and position title. Use of non-Government advisors
 2 shall conform to AFFARS 5315.303-90 (g).

3 • **Proposed Pre-Solicitation Activities.** This section
 4 describes the Utilities Market Survey and how it was
 5 used to develop competition. It describes the steps
 6 that will be used to qualify offerors.

7 • **Evaluation Procedures.** This section describes the
 8 process that will be used by the SSET to evaluate
 9 offerors proposals. This discussion should center on
 10 developing status quo costs and the economic analysis
 11 process.

*Evaluation criteria should be
 exactly duplicated in Section
 M of the RFP.*

12 • **Evaluation Criteria.** This section should describe the
 13 cost criterion and specific criteria, including factors
 14 and, when appropriate, subfactors, and elements. This
 15 information should be exactly duplicated in Section M
 16 of the RFP. This section should also describe the
 17 assessment criteria and how they apply to the
 18 evaluation. The evaluation will be based upon four
 19 factors: Cost or price, Past Performance, Mission
 20 Capability, and Proposal Risk. Section M of the RFP
 21 shall describe the evaluation factors and their relative
 22 order of importance. Of paramount importance is the
 23 financial capability of the offeror. Evaluation should
 24 be of the offeror itself, not of affiliated companies that
 25 cannot be held legally responsible for the offeror’s
 26 obligations. Be particularly cautious of an offeror that
 27 has created a “shell” company to make its offer in
 28 order to avoid liability to the parent entity. Any
 29 assurances from an offeror that its parent or affiliated
 30 company will financially support the offeror should be
 31 carefully examined to ensure there is an unbreakable
 32 legal commitment that the Air Force can enforce
 33 should the offeror fail to perform. The unsupported
 34 and unanalyzed assurances of the offeror should never
 35 be accepted without independent confirmation.
 36 Finally, this section describes general considerations
 37 and how they relate to the evaluation of the offeror’s
 38 proposal. See RFP template.

39 • **Acquisition Strategy.** The SSP summarizes the
 40 Acquisition Plan, including the contract type
 41 proposed, incentives, disincentives, special contract
 42 clauses, and other elements reflective of the
 43 Acquisition Plan.

- 1 • **Schedule of events.** This schedule identifies and
2 establishes the schedule for significant source selection
3 activities in sufficient detail to allow the reviewing
4 authorities to assess the practicality of the schedule.
5 AFFARS Part 5315 provides guidance on source
6 selection events.

7 **Draft Request for Proposal**

8 USAF is using a standard template for utility privatization.
9 Use the appropriate standard RFP template with its
10 attachments provided by HQ USAF. HQ USAF has
11 prepared two standard templates: competitive and sole
12 source. For Reserve Components located on leased
13 property, there are special provisions provided,
14 particularly in the property transfer instruments, dealing
15 with circumstances peculiar to them. For standard
16 template changes, the installation must request a deviation
17 from HQ USAF. Requests for deviations are forwarded
18 through the MAJCOM to HQ AFCEA/CEOC. AFCEA
19 will forward requests to AF/ILEIO who will serve as the
20 focal point for Air Staff coordination. Each deviation
21 request must include a detailed statement of the deviation
22 requested and an explanation of the need for the
23 deviation.

- 24 • Where the Defense Energy Support Center (DESC) is
25 providing contracting support, the DESC version of
26 the Air Force templates will be used. Preparing the
27 Draft RFP is the responsibility of the Contracting
28 Officer.

29 **Draft Comprehensive Analysis Report**

30 At this point, the Draft Comprehensive Analysis Report
31 should be prepared. The Draft Comprehensive Analysis
32 Report should contain all data and analyses performed
33 during the Phase II process and summarize the Phase I
34 process. An outline of the Comprehensive Analysis
35 Report is provided in **Appendix E**.

36 **Presentation and Approval**

The SSA approves the RFP.

37 The Draft RFP and Draft Comprehensive Analysis Report
38 are approved by the installation. The SSA will approve
39 the RFP before it can be issued.

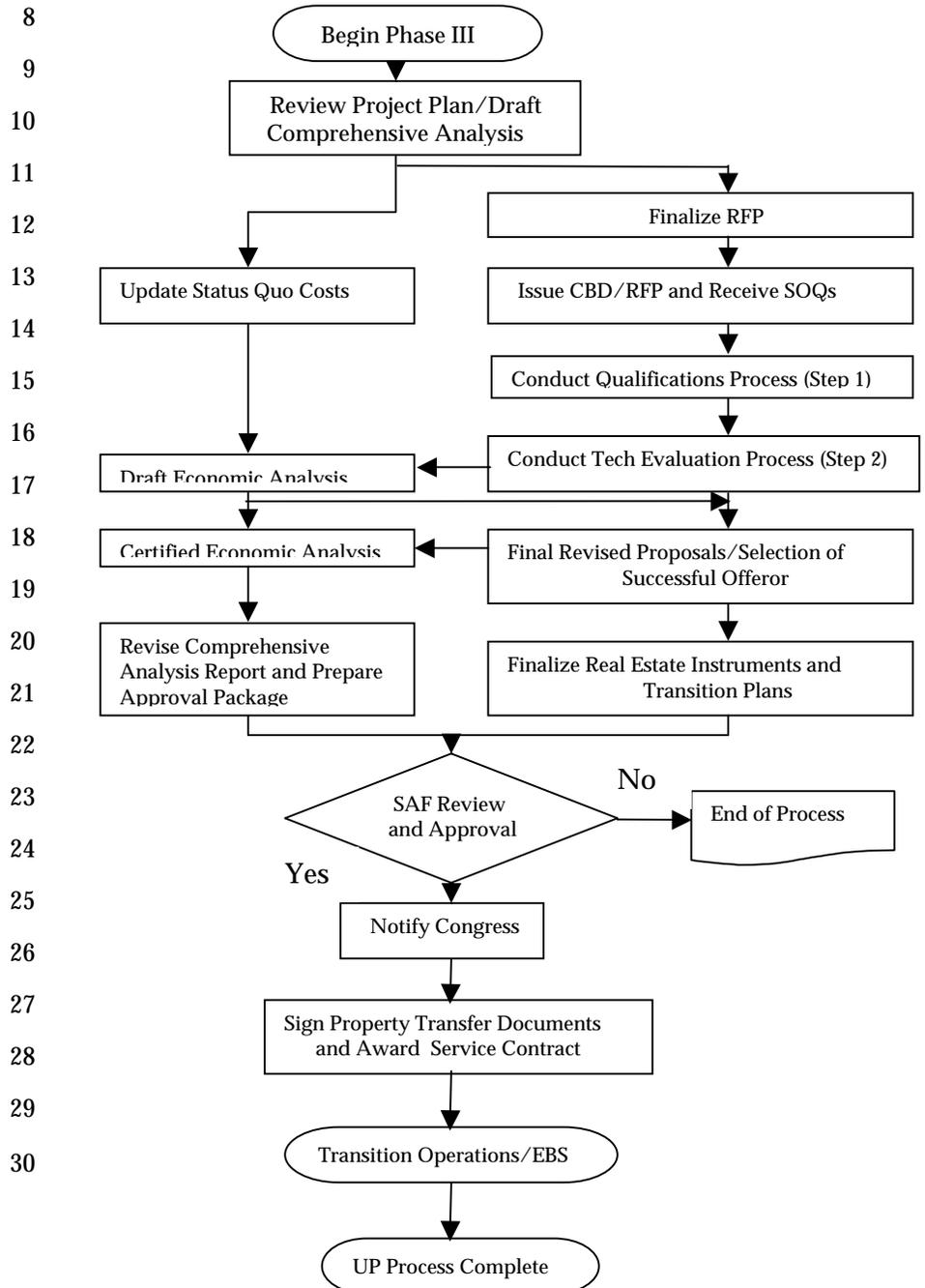
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1 **Phase III: Final Feasibility, Approval, and**
 2 **Implementation**

Phase III is focused on the acquisition process.

3 This last phase is focused on completing the acquisition,
 4 assessing the value of the contractor proposals, gaining
 5 HQ USAF approval, notifying Congress, awarding the
 6 project, and implementing the transition.

7 **FIGURE 3.5: PHASE III OF THE UTILITIES PRIVATIZATION PROCESS**



Final feasibility of the project will depend on the proposals received.

1 The proposals received will determine the final feasibility
2 of the project. The law requires that before the award is
3 made, the Air Force will benefit. This requires a Certified
4 Economic Analysis, approval of the proposed action by
5 SAF/MII, and notification to Congress. During Phase III,
6 the final decision regarding awarding the contract and
7 transferring the utility system is made. Phase III also
8 includes finalizing the Post-Award Transition Plan to
9 properly place the privatized utility in commission. The
10 major steps of Phase III are discussed below.

11 **Reviewing Project Plan and Comprehensive** 12 **Analysis**

13 Based on the findings of the Comprehensive Analysis, a
14 cursory review of the Project Plan should be conducted to
15 ensure budget, schedule, personnel, and points of contact
16 are updated and appropriate.

17 **Finalizing the RFP**

18 After the Draft RFP is prepared, approved changes are
19 incorporated into the appropriate sections of the RFP, and
20 all sections to be included in the Final RFP are completed.

Make all available technical information available to offerors.

21 It will be beneficial to provide site tours and open a
22 technical library related to the utility system so that
23 available information is provided to all interested parties
24 as early in the privatization process as possible. If a
25 technical library is not established before the RFP is
26 issued, it should be immediately afterward. This will
27 allow offerors the maximum time possible to develop their
28 proposals. Sufficient time should be permitted in the RFP
29 for the offerors to conduct the level of due diligence both
30 parties would want before entering into a permanent
31 relationship. Advanced RFIs in the privatization process
32 along with access to technical information in a central
33 library can help accelerate the time from RFP to proposal.

34 The Air Force Contracting Officer is responsible for the
35 final assembly of the RFP, which will include all sections
36 of the RFP.

A goal of the acquisition process is maximum competition.

1 **Preparing and Issuing the *Commerce Business***
 2 ***Daily Announcement***

3 A principal goal of this activity is generating the
 4 maximum competition among qualified entities. This is
 5 accomplished by announcing the solicitation in the CBD,
 6 national newspapers, and trade journals to get as broad a
 7 dissemination as possible. The CBD announcement
 8 should describe the project and qualification process that
 9 will be implemented. The announcement should provide
 10 logistic information regarding when, where, and how to
 11 request the RFP.

The site tour is a critical step in helping the offerors prepare their proposals.

12 **Issuing the Request for Proposal and Site Tour**

13 The entire RFP is issued to all entities responding to the
 14 CBD announcement. Additional RFPs will also be issued
 15 subsequent to the initial issuance upon request to the
 16 Contracting Officer. Within two weeks of issuing the RFP,
 17 the Contracting Officer should conduct a site tour for
 18 potential offerors. This site tour is a critical step in
 19 preparing the offerors' proposals. The site tour should
 20 provide insight into the physical condition of the system,
 21 O&M practices, and overall effectiveness of the system to
 22 provide quality service to the Air Force. The Installation
 23 Civil Engineer should attend the site tour to provide
 24 technical information about the system and answer
 25 questions related to its operation and condition.
 26 Following the site tour, a timeframe is established in
 27 which prospective offerors are allowed to submit
 28 questions in writing. Air Force responses to the questions
 29 must be provided to all participants involved in the
 30 procurement. If warranted, the Contracting Officer will
 31 prepare and issue responses as amendments to the RFP.
 32 The process of responding to offeror questions cannot be
 33 used to circumvent the requirement to obtain HQ USAF
 34 approval for deviations to the RFP and its attachments.
 35 The Contracting Officer should be extremely cautious in
 36 answering questions from offerors in order not to create
 37 conflicts with provisions in the uniform Air Force RFP and
 38 the property transfer instruments. If uncertain, seek
 39 assistance from experts at HQ USAF.

Typically, all offerors will be determined to be either unconditionally qualified or conditionally qualified.

1 **Conducting Qualification Process: Step 1**

2 Step 1, the Qualification Process, includes receiving
 3 Statements of Qualifications (SOQs) from potential
 4 offerors, evaluating SOQs, and notifying offerors of their
 5 qualification status. The purpose of this initial step is to
 6 notify potential offerors of their qualifications, based on
 7 established evaluation criteria, so that the offeror can
 8 determine if they should incur the expense of preparing
 9 the technical proposal. Typically, all offerors will be
 10 determined to be either unconditionally qualified or
 11 conditionally qualified. Conditional qualification means
 12 that the offeror has not demonstrated sufficient technical
 13 organization or financial capabilities to perform all aspects
 14 of the project.

15 Although this process is intended to establish a “short list”
 16 of qualified entities, it cannot be used to deny a proposal
 17 from being submitted. That is, all technical proposals
 18 received will be evaluated. This ensures open and fair
 19 competition and mitigates the likelihood of protests. Also,
 20 if an entity not evaluated during the qualification process
 21 expresses interest subsequent to the Step 1, they must be
 22 provided an RFP upon request. This process will also
 23 ensure open and fair competition and reduce the risk that
 24 the project will be delayed by protest.

25 **Conducting the Technical Evaluation Process:**
 26 **Step 2**

Select the proposal that meets the economic criteria of 10 USC § 2688 and offers the best value to the Air Force.

27 The Technical Evaluation Process begins with a request
 28 for, and acceptance of, separate technical and cost
 29 proposals from qualified offerors. During this step, the
 30 Government will accept proposals up to the stipulated
 31 time and date, evaluate the technical proposals, hold
 32 discussions with offerors, secure final revised proposals,
 33 and select the proposal that meets the economic criteria of
 34 10 USC § 2688 and offers the best value to the Air Force.

35 **Receiving and Evaluating Proposals**

36 Proposals will only be accepted up to the time indicated
 37 by the instructions to offerors (Section L) or subsequent
 38 change through an amendment issued by the Contracting
 39 Officer. Once the Contracting Officer receives the
 40 proposals and has determined they meet the submission
 41 requirements, the SSET is provided the technical and cost

1 portions of the proposals to evaluate against the
2 evaluation criteria (Section M).

3 The SSET evaluates the proposals to qualify the offerors in
4 terms of providing quality service to the Air Force. This
5 evaluation must be non-subjective and solely based on the
6 evaluation criteria. Subjective evaluation could lead to
7 protest following the award of the project. AFFARS, Part
8 15 provides guidance on performing technical evaluations
9 of proposals and determining the competitive range. The
10 SSET will also develop a life-cycle cost analysis model to
11 be used on each proposal. Life-cycle cost analysis will be
12 based on the offerors proposal and updated status quo
13 costs discussed below. This model analysis will identify
14 proposals offering cost savings and support holding
15 discussions with offerors.

16 **Holding Discussions and Making Requests for Final Revised** 17 **Proposal**

18 Once the SSET has determined, based on evaluation
19 criteria, a list of qualified offerors in the competitive range,
20 the Contracting Officer may initiate discussions with those
21 entities in accordance with AFFARS, Part 15 to resolve any
22 questions or deficiencies. These discussions should lead to
23 preparing and submitting final revised proposals.

24 **Reviewing the Final Revised Proposal & Initiating** 25 **the Selection Process**

26 After receiving the final revised proposals by the offerors,
27 the SSET evaluates the proposals to determine which
28 proposals offer the “best value” (quality and cost trade-
29 off).

30 The terms of these final revised proposals will be input
31 into the economic model used in the Economic Analysis to
32 compare the Air Force’s costs. This information will be
33 used in the overall source selection process to select a
34 provider. AFFARS, Part 15 describes the process for
35 documenting the evaluation process of the final revised
36 proposals.

37

38

39 **Updating Status Quo Costs (Including Major** 40 **ANG Installations)**

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46

The status quo cost shall be updated based on the following process:

All cost will be escalated to a common Fiscal Year using the Gross Domestic Product (GDP) deflator (available from <http://w3.access.gpo.gov/usbudget/> go to the “FY XXXX Budget” then “Historical Tables”, then “Section 10”). The GDP deflator for years beyond those already calculated shall be assumed to increase at the same rate as the last year in the table.

Costs of privatization do not start until the final source selection has been made and the service contract is signed. All costs before that date are sunk costs and not part of the analysis.

Gather updated data from the base on the current inventory and adjustments to the status quo costs.

Perform a facility condition assessment on the inventoried system to include a physical inventory review and spot check to confirm the system and its condition and maintenance and repair backlog; information should be developed so that a facility condition index can be ascribed to each system.

- **Replacement Cost New.** Determine Replacement Cost New (RCN) based on the updated inventory using the HQ AFCESA component cost database, Area Cost Factors, and government markups (5% for contingencies; 5.7% Continental US and 6.5% everywhere else for SIOH; and 10% for Design). Replacement Cost New will be estimated based on what it would cost to install the component today using current materials (e.g. polyethylene pipe versus black steel pipe) assuming a green field site (no roads, sidewalks, etc.).
- **Replacement Cost New Less Depreciation.** Determine Replacement Cost New Less Depreciation (RCNLD) based on remaining useful life. Useful life based on HQ AFCESA component life database adjusted by the facility condition assessment.
- **Book Value.** Determine Original Cost New Less

1 Depreciation (OCNLD) or Book Value by
2 deescalating RCN back to the installation date of
3 each component using current GDP deflator and
4 depreciating the components based on remaining
5 useful life. Useful life will be based on HQ
6 AFCESA component life database adjusted by the
7 facility condition assessment.
8

9 **Deficiencies.** Identify and cost Physical and
10 Functional deficiencies.
11

12 • **Physical Deficiencies.** The facility condition
13 assessment will identify the system’s current
14 physical deficiencies that must be corrected to
15 bring the utility system to industry standards or
16 correct physical deterioration. The timeline for
17 amortizing the deficiency corrections which will be
18 determined for each specific utility, deficiency, and
19 funding constraints—could range from two to
20 seven years or more. Overdue renewals and
21 replacements will be covered under Renewal and
22 Replacement costs and not as deficiencies. Specific
23 Industry standards not met or physical
24 deterioration being corrected will be cited in the
25 documentation for each deficiency. Area Cost
26 Factors, and government markups (10% for
27 contingencies; 5.7% Continental US and 6.5%
28 everywhere else for SIOH; and 10% for Design)
29 apply.
30

31 • **Functional Deficiencies.** The system’s functional
32 deficiencies that will require expansion for future
33 loads or process enhancements to meet expected
34 changes in regulatory permitting requirements will
35 be identified. New construction costs to meet these
36 requirements should be estimated based on the HQ
37 AFCESA component cost database and factored
38 into the cash flow when the requirement must be
39 in place. Specific justification for each functional
40 deficiency will be cited in the documentation.
41 Future load requirements will only cover funded
42 projects (i.e. FY2000 Dormitory Project). Area Cost
43 Factors, and government markups (5%
44 contingencies for new projects or 10% contingencies
45 for replacement projects; 5.7% Continental US and
46 6.5% everywhere else for SIOH; and 10% for

1 Design) apply.

2

3 • **Renewals and Replacements (R&R).** Identify and cost
 4 R&R. If a different configuration or technology would
 5 be used in the replacement, its cost, rather than that for
 6 exact replacement of existing facilities, should be
 7 estimated. Additionally, R&R shall include costs for
 8 cuts and patches to other facilities (roads, sidewalks,
 9 etc.) and cost for connections to components not being
 10 replaced that may be required to replace the
 11 components. Use the HQ AFCESA component cost
 12 and life expectancy database along with the facility
 13 condition assessment to determine costs and
 14 replacement cycles. Coordinate R&R projects with
 15 deficiencies so not to double count replacements. Area
 16 Cost Factors, and government markups (10% for
 17 contingencies; 5.7% Continental US and 6.5%
 18 everywhere else for SIOH; and 10% for Design) apply.

19

20 • **Status Quo Costs.** Determine the Status Quo
 21 Operations and Maintenance costs based on the
 22 procedures in Appendix J.

23

24 • **Determine Government Privatized Costs.**
 25 Government Privatized Costs include Contract
 26 Administration, Price Redetermination Negotiations,
 27 Transition Costs, Training Costs, Reduction in Bids for
 28 Taxes, and any other costs incurred by the
 29 Government due to the privatization effort.

30

31 • **Contract Administration.** 5% of the Privatized O&M
 32 cost up to \$100,000 is the total installation cost for
 33 contract administration including all G&A and
 34 Insurance costs.

35

36 • **Price Redetermination Negotiations.** For systems
 37 with a Privatized O&M cost of less than \$100,000 per
 38 year (FY2000\$), add \$2000 (FY2000 \$) every 3 years.

39

40 For systems with a Privatized O&M cost greater than
 41 \$100,000 per year (FY2000\$), add 5% of the Privatized
 42 O&M every 3 years.

43

44 • **Transition Costs consist of Operations Transfer and
 45 Personnel Costs.** Operational Transfer and Personnel
 46 Displacement costs shall be calculated as 10% of the

1 Privatized O&M cost up to \$50,000.

2

3 • **Training Costs.** Include any additional costs for
4 training required because of privatization such as the
5 construction of training mock-ups. Personnel
6 manpower costs are not part of this cost because they
7 are excluded from the Status Quo costs. Only extra
8 costs such as TDY cost to a different location to get
9 training will be included. Privatization contractor
10 costs will be included in their bids.

11

12 • **Taxes.** If the bidder pays Federal Income Taxes, the
13 Federal Income Taxes paid are calculated by
14 multiplying the annual privatized cost times the
15 applicable utility rate from OMB CIRCULAR NO.A-76,
16 Revised Supplemental Handbook, PERFORMANCE
17 OF COMMERCIAL ACTIVITIES, Appendix 4, or AFI
18 38-203, Commercial Activities Program, Attachment 9.
19 This is entered as a negative value in the analysis on
20 the privatized side.

21

22 • **Other Government Costs.** Document and certify any
23 other costs of privatization not included in the above
24 categories.

25

26 **This should be performed and finalized with the base**
27 **and Command before proposals are submitted.**

28

29

30

31 **Updating Status Quo Costs for Minor ANG** 32 **Installations**

33

34 A different approach towards establishing some status
35 quo costs at minor ANG installations was developed
36 because of their size and unique nature. Minor ANG
37 installations do not use the WIMS database for
38 tracking facilities/utilities maintenance activities. This
39 has resulted in difficulty in establishing accurate O&M
40 costs for minor systems.

41 O&M costs will be derived using a percentage of the
42 RCN value of each system. These percentages were
43 derived statistically, for each type of system, from
44 feasibility analysis reports that were previously
45 accomplished on a number of minor ANG

1 installations. The ANG Utilities Privatization Process
 2 Manual details the process.

3 **Cost Analysis for SSET Information**

4
 5 **Quantify and Forecast the Full Cost of Service for**
 6 **the Status Quo Alternative.**

7
 8 The updated adjusted status quo costs, established earlier
 9 in Phase III, are used to develop a cash-flow projection for
 10 keeping the service in-house. This adjusted status quo
 11 cash-flow projection should account for all O&M costs
 12 (adjusted as appropriate), renewal and replacement costs,
 13 known deficiency construction required for increased
 14 utility requirements, and known deficiency upgrades
 15 required to maintain compliance with state and/or local
 16 regulations. The cash-flow projection should be
 17 developed using the AF Utility Privatization Certified
 18 Economic Analysis Model.

19
 20 **Quantify the Cost of Service from Received Proposals**
 21 **for the Privatization Alternative.**

22
 23 Proposals will be evaluated in terms of purchase price and
 24 service fees. Projected cash flows will be prepared based
 25 on the proposed acquisition price and service fees. Cash-
 26 flow projection for the privatization alternative is
 27 determined from data contained in Section B and Section L
 28 Schedules of the offerors' proposal. This data is entered in
 29 the AF Utility Privatization Certified Economic Analysis
 30 Model in order to determine if the proposal is less cost to
 31 the government. Best and Final proposals that do not
 32 meet the requirement to be less cost to the government
 33 will not be considered.

*A Draft Economic Analysis
 will be performed based on
 the selected industry
 proposals to determine if
 privatization is economical.*

34
 35 **Preparing the Draft Economic Analysis**
 36 **for Review**

37
 38 Once the SSET has recommended a best-value proposal, a
 39 Draft Economic Analysis must be prepared to:

40
 41 Assure that the privatization alternative will result in
 42 long-term costs that are less than the adjusted status quo
 43 costs.

44

1 Conform to guidelines specified in OMB Circular A-94

2

3 Conform to guidelines specified in AFM 65-506 and
4 procedures in AFI 65-501.

5

6 Document the life-cycle cost and the benefits associated
7 with the adjusted status quo and with privatization. A
8 qualitative analysis of benefits should be documented by
9 the SSET.

10

11 Show estimates of the Original Cost New Less
12 Depreciation and the Replacement Cost New Less
13 Depreciation of the utility system as well as the Fair
14 Market Value from the recommended proposal.

15

16 This analysis should be limited to comparison of the
17 recommended proposal with the adjusted status quo.

18

19 The projected cash flows should be prepared according to
20 the following:

21

22 Quantify and forecast the full cost of service for the
23 adjusted status quo.

24

25 Quantify the cost of service from the recommended
26 proposal.

27

28 Conduct life-cycle cost analysis using the AF Certified
29 Economic Analysis Model.

30

31 The Draft Economic Analysis must be reviewed following
32 AFI 65-501 procedures for certification.

33 **Quantify and Forecast the Full Cost of Service for the Status**
34 **Quo Alternative**

35 The updated status quo costs, established earlier in Phase
36 III, are used to develop a cash-flow projection for keeping
37 the service in-house to the Air Force. This status quo cash-
38 flow projection should account for all O&M costs
39 (adjusted as appropriate), renewal and replacement costs,
40 known MILCON construction required for increased
41 utility requirements, and known upgrades required to
42 maintain compliance with state and/or local regulations.
43 The cash-flow projection should be developed in the same
44 manner as was used during the Preliminary Economic
45 Analysis of Phase I.

Privatization cost will be determined from actual proposals.

1 **Quantify the Cost of Service from Received Proposals for the Privatization Alternative**

2
3 Proposals will be evaluated in terms of purchase price and
4 service fees. Those proposals that contain terms that are
5 obviously not competitive will be eliminated from further
6 consideration. For those proposals that remain, projected
7 cash flows will be prepared based on the proposed
8 acquisition price and service fees. This projection should
9 be based on the utility requirements identified in Phase I
10 and refined in Phase II.

11 Cash-flow projection for the privatization alternative is
12 determined from data contained in Section B of the
13 offerors' proposal.

Fair market value will be approved by SAF/MII.

14 **SAF/MII Establish Fair Market Value**

15 The fair market value of the utility system will be
16 approved by SAF/MII.

AFM 65-506 is the guide for life-cycle cost analysis.

17 **Conduct Life-Cycle Cost Analysis**

18 Life-cycle cost analysis associated with the status quo and
19 privatization alternatives for which detailed cash flows
20 were developed must be performed in a manner consistent
21 with guidelines included in AFM 65-506.

22 As described above, the Draft Economic Analysis should
23 be prepared according to the guidelines included in AFM
24 65-506. This report will document the life-cycle cost and
25 the benefits associated with the status quo and with
26 privatization.

27 The draft should be submitted to the base Financial
28 Manager (FM) and the MAJCOM for review. It should also
29 be submitted to the SSA tasked with contractor selection
30 and contract negotiations.

The Certified Economic Analysis will be based on the successful final revised proposal.

31

32 **Preparing Final Economic Analysis for Certification**

33
34
35 Review comments on the Draft Economic Analysis should
36 be provided within three weeks once the draft is
37 submitted. The Final Economic Analysis must be
38 prepared based on the review comments and the final
39 terms and conditions in the contract. The Life-Cycle cost
40 analysis comparing the final alternatives will be prepared

1 using the AF Utility Privatization Certified Economic
2 Analysis (CEA) Model. The Final Economic Analysis shall
3 be certified according to AFI 65-501 procedures.

4

5 Organization responsibilities include the following:
6 Utilities privatization study contractors will prepare the
7 draft CEA consistent with guidance. Bases will certify the
8 final CEA and MAJCOMs and AFCESA will review the
9 final CEA.

10

11 **SAF/MII Establish Fair Market Value.** The fair market
12 value of the utility system will be recommended by the
13 SSA selection of the best value proposal that meets
14 appropriate DoD directives and legislative requirements.
15 The CEA will report on the OCNLD and RCNLD
16 benchmark values and will report on the SSA's
17 recommended fair market value of the system. Final
18 determination of the Fair Market Value will be by SECAF.

19 **Finalizing Transition Plans**

20 Based on the final revised proposals, the transition plans
21 can be updated to reflect the selected offerors approach to
22 transition. The final transition plans will be the tool used
23 to control and guide the transition of operations smoothly.

24 **Finalizing Real Estate Instruments**

25 There will be a separate Bill of Sale and Right-of-Way
26 instrument for each utility system without regard to
27 whether the systems have been "bundled". This will
28 prevent confusion later by avoiding the need to separate
29 real property interests contained in a single document
30 should the owner transfer a system to another entity.
31 Additionally, it will prevent potential confusion in the
32 inventories attached to the Bills of Sale and the property
33 descriptions attached to the Rights-of-Way by ensuring
34 that each instrument has only one inventory or property
35 description, as the case may be. Property transfer
36 instruments will be finalized by filling in the appropriate
37 spaces and attaching the appropriate attachments. As
38 with the contract, they will be signed by the offeror, but
39 not the Government until time of award.

40 **Preparing the Final Comprehensive Analysis Report**

41 Once the selection is made and the conditions and
42 economics of the project have been reevaluated in light of
43 the final revised proposals to confirm benefit to the Air

1 Force, the project must be submitted to the HQ USAF for
2 approval and Congressional notification. The Final
3 Comprehensive Analysis Report will be prepared and will
4 describe all the processes used and will include all the
5 data obtained or derived during Phase III. The Final
6 Comprehensive Analysis Report should summarize the
7 Feasibility Analysis Report from Phase I. The outline for
8 the Comprehensive Analysis Report is provided in
9 **Appendix E.**

*The Approval Package
summarizes all data for
submission to SAF/MII.*

10 **Preparing the Approval Package**

11 The Comprehensive Analysis Report must be summarized
12 in a Project Summary Report to be included in an
13 Approval Package. An outline of the Project Summary
14 Report is provided in **Appendix E.** The Project Summary
15 Report and Certified Economic Analysis are included in an
16 Approval Package for formal submission to SAF/MII. The
17 Approval Package will also contain the basic contract and
18 property transfer instruments signed by the offeror.

19 **Awarding the Service Contract and Signing the 20 Property Transfer Documents**

21 Following SAF/MII approval of the project, SAF/MII will
22 coordinate Congressional notification. The service
23 contract and the property transfer instruments (the Bill of
24 Sale and the Right-of-Way) are signed at the same time,
25 although the property transfer instruments do not actually
26 take effect until the contract start date. Signature authority
27 of the property transfer instruments may or may not be
28 delegated at the discretion of SAF/MII.

29 **Implementing Transition**

*Execute transition and post-
award project management.*

30 Having planned the operational transfer of the system and
31 the transition of the affected civil service employees, and
32 having included these requirements in the contract, close
33 coordination with the new owner will be necessary for the
34 project to be successfully implemented. The Post-Award
35 Project Management Team and QA/QC organizations will
36 be put in place to evaluate performance, confirm
37 compliance with property transfer conditions, and assure
38 that services are delivered in accordance with the contract.
39 When transition is complete, the installation will be left
40 with a long-term utility service contract to administer.
41 This contract, which is the vehicle for obtaining quality
42 service, will be monitored by the Post-Award Contract

1 Management Team, just as utility contracts are
2 administered around the Air Force today.

3 **Environmental Baseline Survey**

4 An EBS may be necessary in the case of some utility
5 system sales. The level of analysis will be determined on a
6 case-by-case basis depending on the specific circumstances
7 of the privatization action. Generally, a privatization
8 action that only results in the sale of the system with a
9 right-of-way (i.e., no land is sold) will not require an EBS.
10 Nevertheless, in some circumstances it may still be
11 desirable to conduct an EBS to establish the condition of
12 the land surrounding the utility system. This is most
13 likely to occur in the case of the sale of a wastewater
14 system that includes a treatment plant. The EBS will be
15 performed jointly with the successful offeror after award.