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

17 February 2000

MEMORANDUM FOR ALMAJCOM/FOA/DRU
CE/FM/XP

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

SUBJECT: Programming and Funding Policy for Utilities Privatization

References: (a) Annual Planning and Programming Guidance (APPG), 7 Dec

(b) Clarification of Policies and Procedures for Privatizing Air Force Utility Systems, AF/ILE Memorandum to ALMAJCOM/CE, 9 Jul 99

We are transitioning from the planning to the execution phase for our utility privatization program in support of Defense Reform Initiative Directive (DRID) #49 which requires all requests for proposal (RFP) be released by 30 Sep 01. The Programming and Funding Policy for Utilities Privatization (attached) will assist in completing the budgeting process.

The Annual Planning and Programming Guidance (APPG) (reference a) provides broad-view, overall guidance and is the "source document" for programming decisions. However, to more adequately address the details of utilities privatization, we developed the attached policy statement. Use it in conjunction with both references to assist you in the upcoming FY01 Financial Plan and FY02 POM. It should also answer many utilities privatization procedural questions which have surfaced recently.

This is a coordinated HQ USAF/ILE/XPM and SAF/AQCO/FMBO memorandum. If members of your staff have questions, they may contact Lt Col Alberto Armesto, HQ USAF/ILEIO, DSN 664 4220.

EARNEST O. ROBBINS II, Maj Gen, USAF
The Civil Engineer
DCS/Installations & Logistics

Attachment:
Programming and Funding Policy for Utilities
Privatization with POM Worksheet

Programming and Funding Policy for Utilities Privatization

Background: Defense Reform Initiative Directive (DRID) #49 directs divestiture of a utility system when there are no unique security obstacles and when privatization is more economic. In the economic analyses, we are directed to use “should costs,” defined as what the government should be spending on utility system maintenance and repair, compared with industry standards for that utility. Privatization of utility systems will require adjustments in the budget to provide appropriate funding. This memorandum, in concert with the Annual Planning and Programming Guidance (APPG) (reference a), establishes specific funding policy and provides guidance for calculating budget adjustments in conjunction with utilities privatization. Use this guidance to supplement the APPG and calculate requirements as a result of privatization. Phase I of the AF utility privatization process produces a feasibility analysis report which contains most of the data required for the calculations depicted below. Use the attached worksheet to track manpower and funding resources; formulae are built into each cell as appropriate. Numbers in *italics* are notional; as actual data is entered, please change italic font to regular font.

Current Practice: The Air Force typically owns the utility system which distributes (transports) the commodity (electricity, water, natural gas) from a single delivery point to base facilities. Maintenance and repair to keep the system operational is performed by the civil engineer squadron. The commodity is purchased from a local utility company which periodically sends a utility bill to the base. These utility cost components (maintenance and repair, and the utility bill) are funded primarily from two accounts within Appropriation 3400: Real Property Maintenance (RPM) and Real Property Services (RPS), respectively. In addition, military labor to accomplish RPM is funded from Appropriation 3500.

Privatized Practice: When a utility system is privatized, funding for utility system maintenance will shift from the Air Force (an RPM decrease) to the new owner (an RPS increase that may be reflected in the utility bill). A decision to privatize may result in two scenarios: 1) The new owner of the system and the commodity supplier are one-in-the-same; or, 2) the new owner of the system is not the commodity supplier. In the first case, the system maintenance and capital renewal costs may be included in the unit cost of the commodity and the base will experience an increase in the utility bill. In the second case, the new owner will own, operate, and maintain the system for a fee separate and distinct from the commodity cost. The base will then need to establish a contract for this service. Both scenarios result in a transfer of RPM funding for the associated 1% of plant replacement value (PRV). Before identifying and sourcing the RPS increase, we must transfer any current utility system funding from RPM and military pay, to RPS. Utility system funds are no longer required in RPM and should be used to offset or buy-down the RPS increase. The challenge is in calculating the amount to transfer. However, this transfer may not fully fund the anticipated costs of privatization, resulting in a potential unfunded requirement that will have to be sourced by the corporate Air Force.

Policy: For systems being privatized, it is necessary to determine if there is an unfunded requirement by comparing the amount transferred from RPM and military pay, to the annual privatized cost. The difference will be the shortfall for utilities privatization. Therefore, for systems being privatized, transfer 1% of the PRV of the utility system from RPM, and 100% of the military pay for the utility system, into RPS. Remove the system from installation real property records when the system is conveyed. Include all category (cat) codes pertaining to the system being privatized. See reference (a) for PRV guidance, and reference (b) for cat code guidance. When privatization results in a separate service contract for a utility system (as in scenario #2 above), establish a service contract for “other services” in RPS.

Manpower Guidance: As we implement privatization decisions, it is imperative for MAJCOMs to identify and track manpower reductions as they actually occur. This effort will assist in managing and adjusting end-strength numbers and realigning funding to cover increased RPS costs. These manpower reductions include military and civilian positions previously identified by MAJCOMs as candidates for privatization. The associated funding for the military positions will be realigned from Appropriation 3500 RPS. Enlisted pay is programmed at $40K (FY01 dollars).

Policy for initiating requests for proposals (RFPs): A planning Air Force Form 9 (AF Form 9) is required, regardless of the year of conveyance, to ensure funding for known costs during the first year of privatization. From the feasibility analysis report, determine the privatized cost for the first year the utility system is scheduled for conveyance. Add 10% for unforeseen contingencies. Do not include cost of the commodity--for planning purposes, assume purchase cost of the commodity will not change. Do not include the cost of routine capital renewals and replacements. Add the cost of remedies for current deficiencies which you deem essential and will be an actual cost to the AF during the first year of privatization. Significant scrutiny is required to arrive at a realistic first year cost. In most cases, we do not reasonably expect to pay for any capital renewals and replacements, nor many deficiencies, during the first year of the contract. Most utility companies are not legally permitted to pass improvement costs on to the customer until those improvements are actually completed. Also consider when conveyances happen later in a fiscal year, the new owner probably can’t complete an improvement in time to bill the AF in that FY. This results in the AF having time to program for these costs and avoid having to work unfunded requirements during the year of execution.

Policy for systems being conveyed in FY01: Handle as an execution issue. Use the above policy for a planning Form 9, calculating the amount in the same manner. Calculate the total of 1% of PRV and 100% of the military pay for the affected utility system. Apply this total toward the new RPS requirement. Any shortfall between the privatized cost and the amount transferred is an unfunded requirement. If the MAJCOM cannot source this funding from internal resources, then address this as an unfunded requirement in the FY01 Financial Plan. For costs beyond FY01, identify the shortfall as a Special Interest Item (SII) in the FY02 POM.

Policy for systems being conveyed in FY02 and beyond: Determine the anticipated annual cost of privatization from the feasibility analysis report. Offset this amount by 1% of PRV and 100% of military pay, for the systems being privatized. Compensate for the decrease in RPM and military pay by increasing the RPS requirement in the FY02 POM. Identify any shortfall as an SII in the FY02 POM. Calculate first year AF Form 9 costs in accordance with the policy above.