

GAO

Report to the Chairman and Ranking
Minority Member, Subcommittee on
Personnel, Committee on Armed
Services, U.S. Senate

September 1996

MILITARY FAMILY HOUSING

Opportunities Exist to Reduce Costs and Mitigate Inequities



G A O
75 years
1921 - 1996



United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-272416

September 13, 1996

The Honorable Dirk Kempthorne
Chairman
The Honorable Robert C. Byrd
Ranking Minority Member
Subcommittee on Personnel
Committee on Armed Services
United States Senate

As requested, we reviewed the military family housing program in the United States. We found that the Department of Defense's policy of relying primarily on private-sector housing to meet military family housing needs is cost-effective. However, the military services have not taken full advantage of the significant savings available through greater use of private housing.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant, U.S. Marine Corps; and the Director, Office of Management and Budget.

Please contact me at (202) 512-5140 if you have any questions. The major contributors to this report are listed in appendix III.

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Executive Summary

Purpose

The Department of Defense (DOD) spends about \$8 billion annually to provide housing for military members and their families either by paying a cash allowance for members to live in private-sector housing or by assigning families to government-owned or -leased quarters. DOD policy states that private housing in the communities near military installations will be relied on as the primary source of housing and that government quarters may be programmed when the communities cannot meet the military's need for acceptable and affordable family housing. Also, government housing is provided for a small number of personnel that reside on an installation for reasons of military necessity.

At the request of the former Chairman and Ranking Minority Member of the Subcommittee on Personnel, Senate Committee on Armed Services, GAO reviewed DOD's military family housing program in the United States to determine whether (1) DOD's policy of relying primarily on private housing to meet military family housing requirements is cost-effective, (2) the military services are complying with this policy, and (3) DOD's family housing policies result in equitable treatment for all military families.

Background

About 605,000, or two thirds, of the military families in the United States live in private housing. These families receive cash housing allowances to help defray the cost of renting or purchasing housing in the communities near their installations. Housing allowances, which cost about \$4.4 billion in fiscal year 1995, cover about 80 percent of the typical family's total housing costs, with the family paying the remaining portion out of pocket using other sources of income.

The remaining 293,000, or one third, of the military families live in government-owned or -leased housing. These families forfeit their housing allowances but pay nothing out of pocket for housing or utilities. In fiscal year 1995, DOD spent about \$2.8 billion to operate and maintain government-owned and -leased family housing. In addition, \$724 million was authorized to construct and renovate government family housing units in fiscal year 1995. In fiscal year 1996, the authorization amount rose to \$939 million.

According to DOD, the majority of the existing inventory of government-owned family housing is old; lacks modern amenities; and needs major repair, renovation, or replacement. DOD estimates that over 200,000 of the existing houses do not meet current DOD suitability

standards and need to be fixed up or closed. DOD estimates that the cost to modernize the existing family housing inventory is about \$20 billion.

Results in Brief

DOD's policy of relying primarily on private-sector housing to meet military family housing needs is cost-effective. Studies by the Congressional Budget Office and DOD have shown that compared to the cost of providing military housing, the government's cost is significantly less when military families are paid housing allowances and live in private housing. These studies and GAO's analysis estimate that the cost difference to the government for each family that lives in private housing ranges from about \$3,200 to \$5,500 annually. The government's cost is less primarily because families living in private housing pay a portion of their housing costs and the government pays significantly less federal school impact aid for military dependents that live in private housing, which is subject to local property taxes.

Although the DOD housing policy is cost-effective, DOD and the services have not taken full advantage of this policy. Data reported by the services and GAO's analysis show that the communities surrounding many military installations could meet thousands of additional family housing needs. Yet, the services continue to operate old housing that does not meet suitability standards and, in some cases, improve or replace government housing at such installations. As a result, opportunities for reducing housing costs have been lost because DOD has not taken advantage of the significant savings available from use of private housing.

DOD has not maximized use of private housing for a variety of reasons, including (1) a reliance on housing requirements analyses that often underestimate the private sector's ability to meet family housing needs; (2) a concern over quality of life, although there is little quantitative evidence that family quality of life is better served through government housing; (3) a reluctance to designate more government housing for use by junior personnel who are less able to afford private housing than senior personnel; and (4) a housing allowance system that results in available private housing being considered unaffordable in some areas.

The family housing program also allows significant differences in the housing benefit provided to service members of the same paygrade depending on whether they live in government or private housing. As a result of differences in the out-of-pocket costs paid for housing, members that live in private family housing typically have less disposable income

than members of the same paygrade that live in government family housing.

Recent DOD initiatives to increase housing allowances and to encourage private investors to build housing for military families have the potential for reducing reliance on government housing. However, to minimize housing costs, additional steps are needed to ensure that maximum use of private housing is made before renovating or replacing government housing that has reached the end of its economic life. Changes also are needed in the housing program to make the benefits provided to service members and their families more equitable.

Principal Findings

Relying First on Private Housing Is Cost-Effective

GAO's cost comparison of government-owned and private-sector family housing units in fiscal year 1995 showed that the government spent an average of \$4,957 less for each family that lived in private housing. The difference resulted because a typical family living in private housing paid \$2,016 of its housing costs out of pocket and the government paid \$1,416 less in school impact aid because private housing is subject to local taxes. The remaining amount represents the estimated difference in the annual cost of a housing unit constructed, operated, and maintained by the military and a unit constructed, operated, and maintained by the private sector.

In addition to being cost-effective, there are other advantages to relying on private housing. In the current environment of constrained defense budgets, the short-term flexibility offered by housing allowances appears preferable to the long-term commitments required by military construction. Housing allowances also can offer military members a greater selection of housing options to fit their needs instead of limiting them to what is available in military housing.

DOD Has Not Maximized Use of Private Housing

Information reported by the Army and the Air Force shows that many military installations in the United States have not maximized use of private housing to meet military family housing needs. The Army reports that over 34,000 government family units at 59 Army installations are surplus—meaning that the communities near these installations have

available, adequate housing to meet these requirements. The Air Force reports that over 4,000 government units at 13 Air Force installations are surplus. The Navy and the Marine Corps did not accumulate comparable housing information on their installations.

GAO found evidence that the private sector could meet significantly more of the military's family housing needs than the numbers reported by the services. For example, the services often relied on the results of housing requirements analyses that showed private-sector housing was unavailable. Yet, the analyses used methodologies that understated housing availability in the private sector and that tended to result in a self-perpetuating requirement for government housing. GAO's evaluation of the housing requirements analyses for the 21 installations included in its review showed that methodology problems understated the ability of the private sector to meet military needs at 13 installations.

For example, the Army's housing requirements model estimated that 844 of Fort Eustis' 1,330 family housing units were surplus. If the model had matched housing requirements against private-sector housing units before matching them against government housing units, the model would have estimated that 1,170 government units were surplus, an increase of 326 units that could be closed rather than replaced when they reach the end of their economic life. The Langley Air Force Base housing analysis reported that 398 of the installation's 1,606 government housing units would be surplus in the year 2000. However, the analysis assumed that only 888 of 7,727 forecasted vacancies in the private sector would be available to Langley military families. If the analysis had assumed that more vacancies were available to Langley families, the analysis would have predicted that the private sector could meet all of Langley's family housing needs.

Housing Program Contains Inequities for Military Families

The nontaxable housing benefit provided by DOD's housing program is an important part of the military compensation package. However, when viewed from a compensation perspective, the program allows significant differences in the value of the housing benefit provided to service members of the same paygrade depending on whether they live in private or government housing. For example, two thirds of all military families in the United States own or rent housing in the private sector and typically pay 20 percent of their housing costs out of pocket because the housing allowance covers about 80 percent of private-housing costs. The other one third of military families live in government housing and forfeit their

housing allowances but pay no out-of-pocket costs for housing and utilities.

Because of the difference in out-of-pocket costs, service members of the same paygrade that perform the same job for the military can have different amounts of disposable income depending on whether they live in private or government housing. To illustrate, a typical paygrade E-6 family that lives in private housing pays \$2,050 out of pocket annually for housing costs. In contrast, another paygrade E-6 family that lives in government housing pays no out-of-pocket costs for housing and, therefore, will have \$2,050 more each year to use for other purposes. Similarly, a paygrade O-4 family that lives in private housing typically spends \$2,760 out of pocket for housing each year. Another paygrade O-4 family that lives in government housing pays no out-of-pocket housing costs and can use the \$2,760 for other purposes.

Recommendations

GAO recommends that the Secretary of Defense establish a long-term goal to reduce the use of government family housing in the United States to the minimum possible level. The goal should limit government housing to families assigned to locations where no adequate private-housing alternative exists and to the small number of families that reside on base for military necessity. GAO also recommends that the Secretary develop plans to reduce the difference in the average amounts paid for housing by families of service members in the same paygrade by requiring families that live in government housing pay a portion of their housing costs. To avoid reducing total military housing benefits, GAO notes that the income generated from families living in government housing could be used to fund an offsetting increase in housing allowances.

GAO makes further recommendations in chapter 5 to improve the housing requirements determination process, the information available on member housing preferences, and the availability of government housing for junior personnel.

Agency Comments

DOD partially concurred with the report. At locations where adequate private housing is available, DOD stated that it will not support construction of new government housing and will carefully review proposals to replace deteriorated government housing. DOD also stated that it is pursuing initiatives to promote greater private investment in housing for military families and is studying potential changes to the

housing allowance program that could result in correcting housing inequities and other problems. Further, DOD stated that it plans to revisit procedures for determining housing requirements and has chartered a study that will address the relationship between quality of life and family housing.

DOD did not agree with GAO's draft recommendation to equalize the average amounts paid by service members living in private and government housing. DOD stated that requiring the one third of military members that live in government housing to pay a portion of their housing costs would reduce their benefits, and as a result, could have severe consequences for military retention and readiness. DOD also stated that it would cost too much to equalize the average amounts paid for housing by eliminating the out-of-pocket costs for the two thirds of military members that live in private housing.

GAO agrees that the recommendation would have an adverse impact on the military families that live in government housing since they would begin paying a small portion of their housing and utility costs. However, allowing the housing compensation inequity to continue also has adverse impacts, such as increasing demand for government housing even in areas where private housing is available. GAO also notes that, because out-of-pocket costs paid by families living in government housing could be used to fund offsetting increases in housing allowances, housing benefits for the two thirds of military families that live in private housing actually could increase. To clarify the intent of the recommendation and to ease its impact by allowing time for phased implementation, GAO changed the recommendation to say that DOD should reduce, rather than equalize, the difference in the average amounts paid for housing by requiring families that live in government housing pay a portion of their housing costs.

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Abbreviations

CBO	Congressional Budget Office
DOD	Department of Defense

Introduction

The Department of Defense (DOD) spends about \$8 billion annually to provide housing for families of active-duty military personnel. Seeking to provide military families with access to adequate, affordable housing, DOD either pays a cash allowance for families to live in private-sector housing or provides housing by assigning families to government-owned or government-leased units. The housing benefit is a major component of the military's compensation package.

DOD policy manual 4165.63M states that private-sector housing in the communities near military installations will be relied on as the primary source of family housing. The policy states that government housing may be programmed when the local communities cannot meet the military's need for acceptable and affordable housing.¹ Government housing is also provided for a small number of personnel, often fewer than 15, that reside on an installation for reasons of military necessity. DOD policy further states that installation commanders are responsible for the housing program at their installations and have broad authority to plan, program, and determine the best use of resources.

Military Families Living in Private Housing

About 605,000, or two thirds, of the military families in the United States live in private housing. These families receive cash housing allowances to help defray the cost of renting or purchasing housing in the communities near their installations. Housing allowances, which totaled about \$4.4 billion in fiscal year 1995, cover about 80 percent of the typical family's total housing costs, including utilities. The families pay the remaining portion of their housing costs out of pocket using other sources of income. Military families receive assistance in locating private housing from housing referral offices operated at each major installation.

Housing allowances consist of the basic allowance for quarters and the variable housing allowance. The basic allowance amount varies by military paygrade and is paid to all service members in the United States that do not occupy government quarters. The variable allowance varies by paygrade and by geographic location and is paid to members who receive the basic allowance and live in high-cost areas of the United States. The

¹The minimum DOD standards for private-sector housing to be considered acceptable and affordable include (1) the unit must be within a 1-hour commute by privately owned vehicle during normal commuting hours; (2) the unit must not be in an area designated by the installation commander as not acceptable for health or safety reasons; (3) the unit's total monthly housing cost must not exceed the total of 150 percent of the member's basic allowance for quarters plus the variable housing allowance; and (4) the unit must be structurally sound and have at least one full bathroom and a kitchen and meet other specific standards such as square footage minimums, access to laundry facilities, and electrical, heating, cooling, and sanitation requirements.

variable housing allowance was designed to equalize members' out-of-pocket housing costs across locations in the United States.

In 1985, the Congress adjusted housing allowances so that the out-of-pocket costs would be 15 percent of average housing costs. However, the typical out-of-pocket amount today is about 20 percent because increases in housing allowances have not kept pace with housing costs.

Military Families Living in Government Housing

The remaining 293,000, or one third, of the military families in the United States live in government-owned or -leased housing. These families forfeit their housing allowances but pay no out-of-pocket costs for housing or utilities. In fiscal year 1995, DOD spent about \$2.8 billion to operate and maintain government-owned and -leased family quarters. In addition, about \$724 million was authorized to construct and renovate government family housing units in fiscal year 1995. In fiscal year 1996, the authorization amount increased to \$939 million.

According to DOD, the majority of the existing inventory of government-owned family housing is old; lacks modern amenities; and needs major repair, renovation, or replacement. DOD estimates that over 200,000 of the existing houses do not meet current suitability standards² and need to be fixed up or closed. DOD estimates that the cost to modernize the existing family housing inventory is about \$20 billion.

Table 1.1 summarizes by service the number of families living in private-sector and government housing.

Table 1.1: Military Families in Private and Government Housing (as of Sept. 30, 1995)

	Families in private housing		Families in government housing	
	Number	Percent	Number	Percent
Army	201,300	63.8	114,200	36.2
Navy	194,500	77.9	55,200	22.1
Air Force	154,600	61.4	97,200	38.6
Marine Corps	54,900	67.4	26,500	32.6
Total	605,300	67.4	293,100	32.6

²Current suitability standards for government family housing units include a separate family room and a separate bathroom off the master bedroom in all three-, four-, and five-bedroom units; a half bath on the first floor of two-floor units; vanity-style lavatories in all bathrooms; a separate enclosed washer/dryer space; a refrigerator, range, microwave oven, garbage disposal, and dishwasher; a carport or garage; bulk storage space; and specific living space square footage criteria by paygrade.

Management of the Family Housing Program

Separate DOD organizations manage the two key components of the family housing program—allowances and government housing. Housing allowances are the responsibility of the Under Secretary of Defense for Personnel and Readiness and primarily are managed centrally at DOD headquarters by the organization responsible for all compensation issues, including basic pay and other types of allowances. This organization is the focal point for policy matters and initiatives related to housing allowances.

Government-owned and -leased housing is the responsibility of the Under Secretary of Defense for Acquisition and Technology. Although DOD headquarters establishes overall management policy for government housing, primary management responsibility is delegated to the individual services, their major commands, and individual installations. As the nation's largest landlord, the DOD infrastructure supporting the oversight, operation, maintenance, and construction of government family housing is very large, involving many thousands of government and contract employees.

Family Housing Initiatives

DOD recently placed increased emphasis on improving the quality of life of military members and their families. Because housing is viewed as a key factor affecting quality of life, DOD initiated plans to improve the family housing program. For example, with the support of the Congress, housing allowances were increased for fiscal year 1996 to reduce the average out-of-pocket amounts paid for housing in the civilian community. Increased funding also was approved for construction and modernization of government housing units. The Congress is considering similar actions for fiscal year 1997.

Recognizing that the majority of existing government housing units are old and need major improvements, the Congress also approved DOD's request for new authorities in fiscal year 1996 to test ways to encourage private developers to build and improve housing that would be available to the military. By promoting use of private capital, the goal is to improve military housing more quickly than could be achieved through normal military construction funding. DOD established the Housing Revitalization Support Office to oversee implementation of the new program, and the first projects are expected to be approved by the end of fiscal year 1996.

In an October 1995 report, the Defense Science Board Task Force on Quality of Life reported that the military's housing delivery system was intrinsically flawed. Among many recommendations to improve the

housing program, the task force recommended establishment of a military housing authority to manage DOD housing using private housing industry management principles and practices. DOD has evaluated the report and has begun planning to implement some of the recommendations such as improved housing referral services. DOD did not have immediate plans to request authority to implement a military housing authority.

Objectives, Scope, and Methodology

We reviewed DOD's military family housing program in the United States to determine whether (1) DOD's policy of relying primarily on private housing to meet military family housing requirements is cost-effective, (2) the military services are complying with this policy, and (3) DOD's family housing policies result in equitable treatment for all military families.

We performed our review at the DOD, Air Force, Army, Navy, and Marine Corps headquarters offices responsible for overseeing housing allowances and for managing military family housing. We also performed work at the Housing Revitalization Support Office; the Per Diem, Travel and Transportation Allowance Committee; the DOD offices responsible for quality of life issues, retention, and recruitment; the Air Force's Air Combat Command; the Army's Training and Doctrine Command; the Commander-in-Chief, Atlantic Fleet; and the Naval Facilities Engineering Command, Atlantic and Southwest Divisions. At each location, we interviewed responsible agency personnel and reviewed applicable policies, procedures, and documents.

We obtained and analyzed detailed housing requirements and availability information from 21 Air Force, Army, Navy, and Marine Corps installations that manage government housing. The 21 installations were selected judgmentally to obtain a cross section of installations by service, by geographic location, and by reported family housing availability. We also included 6 of the 10 installations identified by DOD in May 1995 as areas with the greatest shortfall of affordable housing. We visited 8 of the 21 installations, 2 from each service, to review in greater depth the family housing conditions at each installation, including family housing requirements, available private-sector and government housing, housing referral services, and government housing construction and renovation plans. We also toured government-owned housing at these installations. Appendix I identifies the installations included in our review.

To determine the cost-effectiveness of DOD's policy of relying primarily on private-sector housing, we compared the government's reported costs for

families to live in private housing with the government's reported costs for families to live in government quarters. To do this, we reviewed prior DOD and other agency reports on military housing costs and analyzed reported military costs for each housing alternative in fiscal year 1995.

To determine the military services' compliance with the DOD housing policy of relying on private housing, we analyzed Army and Air Force summary data on installation family housing requirements, civilian housing availability, and government-owned housing inventories. The Navy and the Marine Corps did not accumulate comparable data. We also reviewed the family housing situation in detail at the 21 selected installations to determine whether the installations were relying first on private-sector housing to meet military housing requirements. For installations that did not appear to be in compliance with the DOD policy, we explored the reasons for noncompliance.

To determine whether DOD's family housing policies result in equitable treatment for all military families, we compared housing costs for military families that live in private housing and in government housing. We also reviewed the government's reported cost of the housing benefit provided to service members in the same paygrade when living in private and government housing.

Our review was performed between May 1995 and June 1996 in accordance with generally accepted government auditing standards.

Relying on Private Housing Is Cost-Effective

Studies by the Congressional Budget Office (CBO) and DOD show that the cost to the government is significantly less when military families are paid a housing allowance and live in private housing. These studies and our analysis estimate that the cost difference to the government for each family that lives in private housing, instead of government housing, ranges from about \$3,200 to \$5,500 annually. The difference is primarily due to three reasons. First, the government pays about 80 percent of the housing costs for a family that lives in private housing compared to paying 100 percent for a family in government housing. Second, the government pays significantly less federal school impact aid for military dependents when they live in private housing, which is subject to local property taxes. Third, the private sector generally can build, operate, and maintain a family housing unit at less cost than the government.

Factors Leading to DOD's Family Housing Policy

Prior to the 1960s, military personnel normally lived in government housing. Most enlisted personnel were single and lived in government barracks, and married officers of sufficient rank usually lived in government family housing. However, the advent of the Cold War with a large peacetime military force, decisions to make government family housing available to most married personnel, and a significant increase in the percentage of married enlisted personnel resulted in a tremendous increase in the demand for military family housing.

The majority of DOD's current family housing inventory was built between the late 1950s and the late 1960s to help meet this increased housing demand. But DOD recognized that it could not afford to construct enough housing for all personnel with dependents. Thus, in the mid-1960s, DOD adopted the policy of relying primarily on private-sector housing in areas where affordable housing was available and paying service members allowances to help defray their housing costs.

Use of Private Housing Reduces Government Costs

In 1993, CBO issued a report on military family housing in the United States that addressed many issues related to reducing the cost of the family housing program.¹ The report included an analysis comparing the average annual cost of a military housing unit with the cost of a private-sector housing unit obtained by a military family. The comparison showed that in the long run the government spent \$5,500 more annually when military housing was provided instead of paying an allowance for a family to live in private-sector housing.

¹Military Family Housing in the United States. CBO, Sept. 1993.

In response to the report, DOD performed an analysis comparing the same costs. Because of some differences in the assumptions and data used for some cost elements such as long-term capital investment and school impact aid costs, the DOD estimates differed somewhat from the CBO study. However, DOD also concluded that the reduced costs to the government by using private-sector housing was significant—about \$3,200 per family annually.

Key details of the two analyses are shown in table 2.1.

Table 2.1: CBO and DOD Estimates of Annual Costs to the Government for Government and Private Housing

	1993 CBO study	1994 DOD study
Cost of government housing unit		
Operation and maintenance	\$6,200	\$6,505
Capital investment and land	4,900	2,803
School impact aid	1,900	1,478
Total cost to the government	\$13,000	\$10,786
Cost of private housing unit		
Housing allowance	\$7,500	\$7,506
School impact aid	0	62
DOD referral services	0	37
Total cost to the government	\$7,500	\$7,605
Cost difference to the government	\$5,500	\$3,181

A primary reason for the cost difference is that military families pay a portion of the housing costs out of pocket when they live in private housing. Families living in private housing typically pay about 20 percent of their housing costs out of pocket because housing allowances cover about 80 percent of average housing costs. CBO estimated that a family's out-of-pocket cost would be \$1,700 annually and DOD estimated the cost would be \$1,929. The out-of-pocket amount must be paid from other sources, such as other military compensation or spousal income. Families living in government quarters do not pay out-of-pocket costs because the military pays all housing and utility costs.

The difference in federal impact aid paid by the Department of Education and DOD is another key factor explaining the difference in the costs to the government. Impact aid is paid to local governments to help cover the cost of educating dependents of military members. The impact aid for each dependent is significantly higher for students that live with their families

in government quarters because government housing is not subject to local property taxes. When military families live in private housing, a much smaller amount is paid for each student because the housing unit is subject to local property taxes.

The CBO analysis found a third factor contributing to the difference in government housing costs. For a variety of reasons, CBO and others have concluded that the private sector can build, operate, and maintain housing more economically than DOD. For example, table 2.1 shows that CBO estimated that the cost of a government housing unit, excluding school impact aid, was \$11,100 annually. In comparison, the estimated annual cost of a private housing unit was \$9,200. (This amount is the sum of the housing allowance and the out-of-pocket cost.) According to CBO, the difference of \$1,900 represents the extra costs that the military incurs to deliver a housing unit and is caused by the government's long planning and budgeting cycle, project oversight costs, higher labor costs, and detailed regulations and constraints on housing design and construction.

Analysis of Fiscal Year 1995 Housing Costs

We performed a similar analysis using fiscal year 1995 costs. The analysis showed that the government spent \$4,957 less annually for each family that lived in private housing (see table 2.2). We based our estimate of the cost of a government housing unit on reported DOD operation and maintenance costs for fiscal year 1995 and DOD's estimates of the costs for capital investment, school impact aid, and referral services. We based our estimate of the cost of a private housing unit on the reported housing allowances paid in that year and DOD's estimates of the costs for school impact aid and referral services.

Table 2.2: Our Estimate of Annual Costs to the Government for Government and Private Housing

	Estimated costs
Cost of government housing unit	
Operation and maintenance	\$8,092
Capital investment and land	2,803
School impact aid	1,478
Total cost to the government	\$12,373
Cost of private housing unit	
Housing allowance	\$7,317
School impact aid	62
DOD referral services	37
Total cost to the government	\$7,416
Cost difference to the government	\$4,957

Similar to the results of the CBO analysis, our analysis also shows that there are three primary causes for the cost difference to the government. First, military families pay a portion of their housing costs out of pocket when living in private-sector housing. We estimated that these costs would amount to \$2,016 in fiscal year 1995. Second, the government pays more school impact aid when military dependents live in government housing. Third, the government's cost is greater than the private sector's cost to deliver a family housing unit.

DOD Has Not Maximized Use of Private Housing

Although DOD's policy of relying first on private housing to meet military family housing needs is stated in military housing instructions and is cited in congressional hearings on military housing, DOD and the services have not taken full advantage of the policy. Until the recent introduction of new initiatives to encourage private investment in military housing, DOD had placed little emphasis on increasing reliance on private housing. Instead, even at installations where surrounding communities can meet additional military housing needs, the services continue to operate old housing that does not meet suitability standards and, in some cases, improve or replace government housing. As a result, opportunities for reducing housing costs have been lost because DOD has not taken advantage of the significant savings available from use of private housing.

DOD and the services have not maximized use of private housing for a variety of reasons, including a reliance on housing requirements analyses that often underestimate the private sector's ability to meet family housing needs; a concern over quality of life, although there is little evidence that family quality of life is better served through use of government housing; a reluctance to designate a greater portion of existing government housing for use by junior personnel who are less able to afford private housing than senior personnel; and a housing allowance system that results in available private housing being unaffordable in some areas.

Current initiatives to increase housing allowances and to encourage private investors to build housing for military families have the potential for reducing costs while meeting military family housing needs. However, additional steps are needed to ensure that maximum use of private housing is made before renovating or replacing government housing that has reached the end of its economic life.

Additional Private Housing Is Available

Information reported by the Army and the Air Force shows that many military installations in the United States have not maximized the use of private housing to meet military family housing needs. For example, the Army reports that over 34,000 government family units at 59 Army installations are occupied but are considered surplus—meaning that the communities near these installations have available and affordable housing that could meet these requirements. To illustrate, the Army reports that Forts Knox, Polk, and Eustis have 3,387, 2,422, and 824 surplus government housing units, respectively. Similarly, the Air Force reports that over 4,000 government units at 13 Air Force installations are

surplus. For example, Andrews, Langley, and Seymour Johnson Air Force Bases have 985, 398, and 262 surplus housing units, respectively.

The Navy and the Marine Corps do not accumulate comparable summary housing information for their installations. However, housing referral officials at some Navy and Marine Corps installations included in our review stated that affordable private housing was readily available in the local civilian communities. For example, housing referral officials at Cherry Point Marine Corps Air Station stated that the civilian communities near the installation had hundreds of available and affordable family housing units. Referral officials at the Norfolk naval complex stated that the local community could support additional housing needs for officers that currently live in government quarters.

Requirements Analyses Understate Private Sector's Ability to Meet Housing Needs

Although the services report some surplus government housing units, our analyses indicate that the private sector can meet significantly more of the military's family housing needs. We found that systemic problems in the housing requirements determination process can understate the private sector's ability to meet military needs and result in a self-perpetuating requirement for government housing, even at locations where affordable private housing is available.

Our evaluation of the services' housing requirements analyses for the 21 installations included in our review showed that methodology problems understated the private sector's ability to meet military needs for 13 installations. As a result, the installations planned to continue operating and, in some cases, improve government housing instead of saving money by relying more on private-sector housing.

Housing Requirements Analyses

The services periodically perform housing analyses for each major installation to forecast military housing requirements and the availability of government and private housing units to meet the requirements. Each analysis normally includes a detailed estimate of the installation's housing requirements considering individual paygrade and bedroom needs based on family size. The services' analyses estimates and compares military family housing requirements with the inventory of government-owned and -leased housing and with the estimated number of available private housing units that meet the military's criteria for suitability and affordability. The process predicts whether an installation will have a housing surplus or deficit in the near future. Predicted deficits can form

the basis for justifying government housing construction and renovation projects. Predicted surpluses can indicate a need to close government units.

The housing analysis process is complex because many variables are considered and because each analysis attempts to predict future housing needs and housing availability. Also, the services use different methods to compute housing requirements. The Army determines requirements centrally for all installations using a computer model. The Air Force, the Navy, and the Marine Corps use private contractors to perform housing analyses for each installation.

Methodology Problems in the Requirements Determination Process

We found two key methodology problems in the military's housing requirements process that tend to perpetuate the need for government housing, including housing that does not meet DOD's suitability standards, by understating the private sector's ability to meet military needs. The first problem is that the housing analyses match military family housing requirements against government housing units before considering private housing units. Regardless of the private sector's ability to meet military housing needs, private-sector housing is considered only if housing deficits remain after the government housing inventory is fully used. The second problem is that many housing analyses assume that only a small portion of a community's vacant rental units will be available for military families to occupy. As a result, the analyses underestimate private housing availability because they exclude from consideration hundreds of suitable vacant units.

From a requirements determination perspective, matching housing needs against government housing units, including those that DOD considers unsuitable, before available private housing units is inconsistent with DOD's policy of relying first on the private sector. For example, if all family housing requirements can be met by government housing units, then private-sector housing is not considered, even though private housing may have been sufficient to meet some, or even all, of the military's requirements. This situation can result in a self-perpetuating requirement for government housing. The following examples illustrate the problem.

The Army's housing requirements model estimated that 844 of Fort Eustis' 1,330 family housing units were surplus. If the model had matched housing requirements against private-sector housing before matching them against

government housing, the model would have estimated that 1,170 government units were surplus, an increase of 326 surplus units that could be closed rather than replaced when they reach the end of their economic life. Fort Eustis officials stated that most of the installation's housing was old and did not meet current suitability standards. At the time of our visit in July 1995, Fort Eustis had ongoing projects to demolish 367 housing units constructed in the 1950s and to upgrade 8 senior officer quarters. The officials estimated that it would cost about \$42 million to improve the remaining housing inventory.

At Fort Knox, the Army's model estimated that 3,273 of the 4,364 family housing units were surplus. However, if housing requirements had been matched against private-sector housing before matching them against government housing, the model would have estimated that 3,878 government units were surplus, an increase of 605 surplus units. During our visit in April 1996, Fort Knox officials stated that most of the installation's housing was old and did not meet current suitability standards. They stated that they planned a net reduction of 812 government units by the year 2000 and would like to bring the remaining government housing inventory up to current standards at a cost of about \$127 million.

Army headquarters officials stated that they have decided to change their model so that military requirements are matched first against private-sector housing. The officials stated that the change will result in reporting a greater number of surplus government housing units and will help Army officials identify installations where old government housing units could be closed to save operating costs. Air Force, Navy, and Marine Corps officials did not indicate that they planned to change the requirements determination process to consider private-sector housing first.

The second problem in the requirements determination process that can understate the private sector's ability to meet military housing needs is the methods that are used to estimate how many vacant rental units will be available to military families. The Air Force and other housing experts consider that the natural rental vacancy rate in most markets is about 5 percent. This vacancy rate provides for vacancies caused by normal rental turnover and by rental units undergoing repairs or renovations. Vacant rental units above the 5-percent level often are called excess vacancies and normally are considered available for rent.

Air Force officials stated that all suitable excess vacancies should be considered as being available to the military. However, the market analyses for five of the six Air Force installations included in our review concluded that only a small portion of the suitable excess vacancies would be available to military families. Similarly, the market analyses for six of the nine Navy and Marine Corps installations included in our review concluded that only a small portion of the suitable excess vacancies would be available to military families. The Army's model does not predict the existence of excess vacancies because the model assumes that in the long run, rental housing supply will match rental housing demand. The following examples illustrate the problem with Air Force, Navy, and Marine Corps analyses.

The Langley Air Force Base market analysis reported that 398 of the installation's 1,606 government housing units would be surplus in the year 2000. However, the analysis estimated that only 888 of 7,727 suitable excess vacancies in the private sector would be available and affordable to Langley families in that year. The analysis assumed that the remaining vacancies would be available to families from nearby Army and Navy installations. However, the requirements analyses from these installations estimated that they would only use 1,223 rental vacancies. If the Langley analysis had assumed that most of the remaining suitable and affordable excess vacancies were available to Langley families, the analysis would have predicted that the private sector could meet all of Langley's family housing needs.

Langley officials stated that most of the installation's housing did not meet current suitability standards. In 1994, an Air Force contractor estimated that improving the housing to current standards would cost \$99 million. At the time of our visit to Langley in August 1995, an \$8.5-million project was underway to renovate 144 family units. Another project, which will cost about \$16 million, had begun to replace 180 family units constructed in 1976 with 148 new units. Although only about 20 years old, Langley officials stated the units being demolished had experienced maintenance problems and did not meet current suitability standards.

The Cherry Point Marine Corps Air Station market analysis reported that the installation would have a deficit of 600 family units in the year 1999. The analysis estimated that only 140 of 1,944 suitable and affordable vacancies in the private sector would be available for Marine families. If the analysis had assumed that most suitable and affordable excess vacancies were available to military families, the analysis would have

predicted that Cherry Point would have a surplus of government housing units instead of a deficit in the year 1999. Further, the analysis assumed that 2,352 additional families would be moving to Cherry Point because of Base Realignment and Closure Commission decisions in 1993. In 1995, the Commission changed this decision, and the additional personnel will not be moving to the installation. Cherry Point officials stated that most of the installation's housing was old and did not meet current suitability standards. They estimated that about \$187 million would be required to renovate the existing inventory of government housing units. At the time of our visit to Cherry Point in September 1995, 165 officer and enlisted housing units were being renovated at a cost of \$8.3 million.

Housing Requirements Determination Has Been a Long-standing Problem

The questionable quality of the services' housing requirements determination process has been a long-standing problem that has been cited in several past audit reports. For example, a 1992 report by the DOD Inspector General found that the Navy and the Air Force overstated family housing requirements and understated the amount of private-sector housing available to satisfy requirements for several proposed housing projects. A 1994 report by the Naval Audit Service concluded that the Navy overstated housing requirements at eight installations because the requirements determination process was based on flawed procedures, poor implementation of those procedures, and inaccurate data.

More recently, the House Committee on National Security's report accompanying the National Defense Authorization Act for Fiscal Year 1996 directed the Secretary of Defense to study the different methods used by the services to determine housing requirements and develop a departmentwide standard methodology. In response, the DOD Inspector General is auditing the various methods used by the services to determine whether the methods identify housing requirements in an accurate and economical manner. DOD plans to assess the findings and recommendations of this audit and respond to the Congress by October 15, 1996.

Other Factors Contribute to the Continued Use of Government Housing

In addition to DOD's underestimating the private sector's ability to meet military needs, other factors have contributed to the continued use of government housing, even when private housing is available. These factors include concerns over quality of life, a reluctance to designate more government housing for junior personnel, and housing allowance amounts that make available private housing unaffordable.

Quality of Life Concerns

Over the past 2 years, DOD has placed increased emphasis on improving the quality of life of military members and their families. Citing a direct relationship between quality of life and readiness, DOD has pursued efforts to improve key quality of life elements such as compensation, family separation time, community and family services, and housing.

In the housing area, many DOD housing officials stated that the quality of life of military families is better served through use of government housing. As a result, they stated that many installations have continued to operate government housing at locations where the private sector could meet additional military housing needs.

DOD officials noted that by living in government housing, families have the nearby support of other military families, enjoy a sense of greater security and safety, can save transportation costs, and are closer to on-base amenities such as commissaries, child care, and recreation facilities. Further, on-base housing is always affordable since families do not pay out-of-pocket costs for their housing, utilities, or maintenance. Some officials stated that if additional families were forced to live in private housing, then more families would pay out-of-pocket housing costs, which could reduce overall quality of life and adversely affect morale, retention, and recruitment.

Because quality of life is somewhat intangible depending largely on individual preferences and perceptions, it is difficult to identify, measure, and assess the factors that most affect a service member's quality of life. For the most part, we found little quantifiable evidence that supports the view that quality of life is better served through military housing. Without such information, DOD does not know whether decreased reliance on government housing would result in adverse consequences.

DOD officials agreed that there is little quantifiable data available to show that military families prefer to live in military housing. However, they stated that the high demand for government quarters is strong evidence that families prefer military housing and that continued operation and improvement of this housing will enhance quality of life. DOD officials noted that government housing has a very high occupancy rate and that most installations have a waiting list of families that desire to move from private housing to government quarters.

Some evidence, however, indicates that the current demand for government housing may not be an accurate indication of member

preferences for housing because military families have a significant financial incentive to seek government quarters. For example, some Army officials stated that the demand for government quarters in all likelihood would be far less if families paid the same out-of-pocket costs for government housing that they pay for private housing. Also, in its 1993 report on military family housing, CBO reported that “not all, or even most, families who value the on-base life-style would choose to live in DOD housing if they were faced with paying its full cost . . . It seems likely that without the implicit price subsidy for DOD housing, many more families would choose to live in the private sector.”

Although little data is available on service member housing preferences, we identified some information that cast doubt on the view that members prefer government housing. For example, a May 1995 report on quality of life in the Air Force concluded that “more Air Force personnel live off-base and given the means, prefer to live off-base.” The report stated that the factors, ranked in order, that affected members’ decisions to live in government or private housing included where they were stationed, safety, cost, and housing quality. Similarly, a January 1995 report on quality of life in the Marine Corps reported that members living in private housing were more satisfied with their residence than those living in on-base family housing.

During our visit to the Commander-in-Chief, Atlantic Fleet, in August 1995, housing officials and top enlisted personnel stated that the quality of life of military families was better served through use of private housing. They stated that most military families prefer to live in civilian communities, particularly when they can afford to purchase homes.

Concerning the impact that housing conditions have had on military quality of life and readiness, we found little evidence that retention or recruitment has been affected adversely by existing housing conditions. For example, in DOD’s annual report on personnel readiness for fiscal year 1995, DOD reported that skillful management of the force drawdown since fiscal year 1992 has allowed DOD to improve the quality of the force and its readiness. Also, a DOD news release in November 1995 reported that the armed services had met their fiscal year 1995 recruiting goals “while maintaining the high quality necessary to maintain a capable, ready force.”

Similarly, a Navy survey of enlisted personnel who left the service in fiscal year 1995 showed that the top three reasons for leaving were basic pay, promotion and advancement opportunities, and amount of family

separation. A comparable fall 1995 Army survey of enlisted personnel reported that the top four reasons for leaving the Army were the amount of basic pay, quality of Army life, promotion opportunity, and separation from family. Less than 1 percent of the respondents in each survey cited housing quality or housing availability as a reason for leaving the service.

Reluctance to Increase Government Housing for Junior Personnel

Some military installations reserve government housing for senior personnel at locations where private-sector housing is available and affordable for senior personnel. When the private housing near these installations is too expensive for junior personnel, this practice can increase reported housing deficits because junior personnel may be living in private housing that is considered too expensive or otherwise unsuitable for their paygrades.

For example, the Navy's November 1993 housing analysis for the Norfolk naval complex forecasted a deficit of 2,171 housing units for 1998. The deficit primarily reflected the shortage of private housing that was affordable to junior enlisted personnel. However, the analysis also reported that enough private housing was available and affordable to meet the housing needs for all officers and most senior enlisted personnel. If senior personnel and their families lived in private housing and if the government housing currently reserved for their use were redesignated for use by junior personnel, the reported deficit would be 775 units, a decrease of 1,396 units.

This problem with housing for junior enlisted personnel is caused by two factors. First, because housing allowances increase with rank, junior enlisted personnel are least able to afford private-sector housing. In the Washington, D.C., area, for example, the monthly housing allowance for the family of a junior enlisted member in paygrade E-3 is \$659. The allowance for an E-6 family is \$893, or 35 percent more than the E-3 family's allowance.

Second, junior enlisted families are more likely to live in private housing than higher graded personnel because proportionally less government housing is assigned to junior members and their families. In fiscal year 1995, about 22 percent of junior enlisted members' families in paygrades E-1 through E-3 lived in government housing compared to 37 percent of the families in paygrades E-4 through E-6 and 30 percent of the families in paygrades E-7 through E-9.

DOD officials agreed that the relatively low proportion of government housing assigned to junior personnel is a problem. They stated that one reason the situation exists is because, prior to the early 1970s, junior enlisted personnel with dependents normally were not authorized to live in government family housing. As a result, housing constructed before that time was designed for more senior personnel and designated for their exclusive use. Many members continue to view assignment to government quarters as a privilege traditionally available to more senior, career personnel.

DOD officials also stated that, although more government housing has been made available for junior enlisted personnel over the past few years, some installations continue to reserve government housing for senior personnel in areas where senior personnel can afford to live in private housing. They stated that some installation commanders are reluctant to designate more government housing for junior personnel because of the perceived adverse impact on senior personnel. Specifically, some commanders are concerned that requiring senior personnel to live in private housing so that junior personnel can live on base will be viewed by senior members as a reduction in their benefits and quality of life.

Although we understand the reasons supporting the reluctance to designate more quarters for junior personnel, the practice can reduce the savings available to the government by maximizing use of private housing. Also, to lessen the potential impact on senior personnel and their families, housing redesignations could be accomplished over a phased period of time as the families move from government housing when transferred to other duty stations.

Allowances Keep Private Housing From Being Affordable

Another factor that contributes to the continued reliance on government housing is the high cost of private housing. DOD officials stated that many communities surrounding military installations have housing that is available to military families but often the housing is not affordable. DOD considers private housing to be unaffordable to a family if the housing costs, including utilities, exceed an amount equal to the sum of a member's basic housing allowance, variable housing allowance, and an additional 50 percent of the basic allowance.

Our analysis of the housing situation at 21 installations identified several cases where private housing was available but was considered to be unaffordable. For example, the Navy's October 1994 housing analysis for

the San Diego naval complex reported that affordability, rather than availability, of private housing was a key reason causing a military housing deficit in the area. The analysis reported that in 1994, 41 percent of all one- and two-bedroom rental units and 98 percent of all three-bedroom rental units were not affordable to service members in paygrades E-1 through E-3. For all enlisted paygrades, 20 percent of all one- and two-bedroom rental units and 75 percent of all three-bedroom units were not affordable. Partly because similar affordability problems were predicted for 1999, the analysis estimated that a housing deficit would continue.

Affordability of private housing was also a key problem reported in the March 1994 housing analysis for the Marine Corps' Twentynine Palms installation. The analysis predicted that in 1998, 45 percent of all one- and two-bedroom rental units and 100 percent of all three-bedroom rental units would be unaffordable to service members in paygrades E-1 through E-3. The analysis also reported that over 1,200 military families who lived in private rental housing in 1993 were unacceptably housed primarily because of high costs. However, service members in most paygrades at Twentynine Palms do not receive the variable portion of the housing allowance because the installation is not considered to be in a high-cost area.

Assuming that the market analyses correctly reported the actual costs of private-sector housing, situations such as these raise questions about the adequacy of the housing allowance program. In addition to helping defray housing costs when living in the private sector, housing allowances are intended to equalize housing costs paid by service members in the same paygrade, regardless of where they live in the United States. In other words, housing allowances are designed so that members in the same paygrade should pay the same amount of their housing costs whether they live in a rural, low-cost area or in an urban, high-cost area. For example, for fiscal year 1996, housing allowances were established at levels so that an E-5 family living in private housing will pay about \$153 a month out of pocket for housing costs, regardless of where the family lives in the United States. The housing allowance is supposed to cover the remaining portion of the typical total housing costs for each geographic area.

If housing allowances functioned as intended, it appears unlikely that an installation's housing analysis would find that most private-sector housing was unaffordable to military families. Yet, this is the case in some locations. According to DOD officials, the primary explanation for this is that a different measure of housing costs is used to determine housing

allowances than is used to determine private housing affordability in housing analyses. To illustrate, the variable portion of the housing allowance is based on the amount service members actually spend for housing in a geographic area. In contrast, the housing analyses determine private housing affordability on the basis of average rents charged in an area for housing of the size and quality that members are entitled to.

Use of different measures of housing costs can cause allowances to spiral downward relative to actual housing costs in an area, making private housing less affordable. For various reasons, such as keeping housing costs to a minimum, members in a geographic area may choose less housing than they are entitled to. For example, a family entitled to four bedrooms if living on base may rent a three-bedroom apartment or a house in a less desirable neighborhood. These members report lower housing expenditures than they would if they obtained the size and quality of housing they are entitled to if they lived in on-base housing. Because allowances are based on expenditures, the result is that allowances for some areas are established at levels lower than they would be if they were based on an area's average housing costs. Lower housing allowance amounts in subsequent years can result in families obtaining even less quality or quantity of housing, causing a downward spiral to develop.

A key issue is that this problem results in some installations reporting larger housing deficits due to the unaffordability of private housing. Under the current system, the deficits can be used to justify the need to build new or renovate existing government housing. Although we did not perform a detailed analysis, it appears plausible that at some installations increased allowances would make more private housing affordable and be a more cost-effective alternative than continued use of government housing. Our point is that DOD normally does not consider options involving changes to housing allowances when considering solutions to housing problems at specific locations.

DOD officials stated that a working group has been formed to study the housing allowance program to determine whether changes are needed. Any proposals for change would be submitted for congressional consideration during the fiscal year 1998 budget process.

Housing Program Contains Inequities for Military Families

Whether through cash allowances or government housing, the nontaxable housing benefit provided by DOD's housing program is a significant part of the military compensation package. However, when viewed from a compensation perspective, the program contains inequities for military members and their families. Specifically, the program allows significant differences in the value of the housing benefit that is provided to members of the same paygrade depending on whether they live in private or government housing. The differences exist both in the out-of-pocket amounts paid by military families for housing and in the housing costs paid by the government to provide housing benefits.

Differences in Housing Costs Paid by Families

About two thirds of all military families in the United States own or rent housing in the private sector. These families receive a housing allowance that covers about 80 percent of typical private housing costs. The families pay the remaining 20 percent of their housing costs out of pocket from other sources of income. The other one third of military families live in government housing. These families forfeit their housing allowances but pay no out-of-pocket costs for housing and utilities.

The difference in out-of-pocket costs creates an equity issue because service members of the same paygrade that perform the same job for the military can have different amounts of disposable income depending on whether they live in government or private housing. For example, the out-of-pocket housing cost for a typical E-6 family that lives in private housing is about \$2,050 for fiscal year 1996. In other words, an E-6 family in private housing will pay about \$171 more each month for housing than is covered by the housing allowance. In contrast, another E-6 family that lives in government housing will not have to pay any out-of-pocket costs for housing or utilities. As a result, in comparison to an E-6 family living in private housing, an E-6 family in government housing will have \$2,050 more each year to use for other purposes.

As another example, an O-4 family that lives in private housing in fiscal year 1996 typically will spend \$2,760 out of pocket for housing because the housing allowance covers only 80 percent of housing costs. However, another O-4 family that lives in government housing will not pay any out-of-pocket housing costs and could use this \$2,760, or \$230 each month, for other purposes.

The average out-of-pocket costs paid by service members living in private housing are determined through the process that establishes housing

allowances. To set housing allowances, DOD conducts an annual survey of all service members that live in private housing. The survey obtains information on the actual amount each member pays for housing—the actual monthly rental cost or equivalent mortgage payment. DOD estimates total housing costs by adding a standard amount for utility costs to the reported monthly housing cost. In each geographic area, DOD averages total housing costs and sets allowances so that the median out-of-pocket costs for members in the same paygrade are the same in both high- and low-cost areas of the country.

The out-of-pocket housing costs paid by service members in selected paygrades in fiscal year 1996 are shown in table 4.1.

Table 4.1: Median Family Out-of-Pocket Costs for Private Housing

Paygrade	Out-of-pocket amount	
	Monthly	Annually
E-3	\$105	\$1,260
E-4	135	1,620
E-5	153	1,836
E-6	171	2,052
E-7	179	2,148
E-8	192	2,304
E-9	222	2,664
O-1	147	1,764
O-2	151	1,812
O-3	184	2,208
O-4	230	2,760
O-5	247	2,964
O-6	318	3,816

In a November 1994 draft report on family housing, DOD noted that the difference in out-of-pocket housing costs between families living in government housing and in private housing created a basic inequity that was recognized by all service members. However, DOD officials stated that the inequity did not appear to be a significant factor affecting morale. The officials stated that most members accepted the difference as a fact of military life.

Differences in Family Housing Costs Paid by the Military

Another way to consider the equity question in the housing program is to examine the amount that the government pays to provide military families with housing. As discussed in chapter 2, the government spends from \$3,200 to \$5,500 more annually for a family that lives in government housing than it spends on allowances for a family that lives in private housing. This difference can create an equity issue because the government's housing expenditure is significantly different for service members of the same paygrade depending on whether they live in government or private housing.

For example, an E-3 family could be assigned to a government housing unit that costs the military over \$100,000 to construct and over \$8,000 annually to operate and maintain. At the same installation, another E-3 family could live in private housing. For this family, the military typically would pay about \$5,680 in housing allowances annually.

As another example, the Navy leases 300 family units from a private company at 1 complex in the Norfolk naval installation area. For each leased unit, the Navy spends about \$14,600 annually in rent, utilities, and other related costs. Some E-4 families are assigned to these leased units. Because the complex normally is fully occupied, other E-4 families live in private housing in the surrounding community and receive \$6,258 annually in housing allowances. In this situation, the military's housing expenditure is about \$8,300 more for one service member than another member, although both are the same paygrade and may even perform the same job for the Navy.

Similarly, the Marine Corps leases 600 family units at the Twentynine Palms installation. Each unit costs about \$14,600 annually, including utilities and related costs. Some E-5 families are assigned to these government quarters. Other E-5 families live in private housing and receive \$5,380 annually in housing allowances. Because of differences in where they live, the military's expenditure for housing is about \$9,200 more for one service member than another in the same paygrade.

Previous Reports Have Addressed the Housing Equity Question

It is not easy to find a cost-effective solution to the equity problem created by DOD's housing program. Past DOD studies related to family housing issues, such as the Defense Science Board's Quality of Life report and the Seventh Quadrennial Review of Military Compensation, generally accepted continuation of the current program. However, the reports recommended

that the difference in housing costs be reduced somewhat by increasing allowances so that families pay only 15 percent out of pocket.

The Quality of Life report also made a long-term recommendation that potentially could eliminate the housing cost inequity. The report recommended establishing a military housing authority to build, maintain, and operate all military housing. Details on how the concept would be implemented or estimates of its cost were not provided in the report. However, under this concept, housing could be provided for all military families who would forfeit their allowances but pay no out-of-pocket costs. This approach would result in greater equity because no families would pay out-of-pocket costs. DOD officials stated that eliminating the out-of-pocket costs for all families probably would be unaffordable.

One of several proposals for reducing military housing costs presented in the 1993 CBO report also could eliminate the housing cost inequity. Under the proposal, all military families would receive a housing allowance and families that lived in government housing would pay rent and the cost of their utilities. In addition to eliminating the financial incentive to seek government housing, CBO noted that this alternative could result in greater equity because all families would pay a portion of their housing costs out of pocket. CBO stated that the intent of the proposal was to not increase the out-of-pocket costs of military personnel. Thus, CBO suggested that any difference between DOD's total rent and utility receipts and the cost of providing housing allowances to families living in government housing would be used to finance an increase in allowance levels for all military families. DOD officials stated that the proposal would reduce the quality of life of military families.

Conclusions and Recommendations

Conclusions

DOD's policy of relying first on private-sector housing to meet military family housing needs is cost-effective. Although there is some variation in the estimates, CBO, DOD, and our estimates show that the cost to the government is significantly less when military families are paid a housing allowance and live in private housing than when they live in government housing.

In addition to being cost-effective, there are other advantages to relying on private housing. In the current environment of constrained defense budgets, the short-term flexibility offered by housing allowances appears preferable to the long-term commitments required by military construction. For example, family housing requirements fluctuate as changes occur in the missions and in the number of personnel assigned to each installation. Generally, such changes in housing requirements can be accommodated more easily through use of housing allowances compared to the construction, operation, and maintenance of fixed inventories of government housing units. Further, housing allowances also can offer service members a greater selection of housing options to fit their needs instead of limiting them to what is available in government housing.

Although DOD's policy of relying first on private-sector housing to meet family housing needs is cost-effective, the military services have not taken full advantage of the significant savings available through greater use of private housing. This is because DOD and the services have (1) relied on housing requirements analyses that often underestimate the private sector's ability to meet family housing needs, (2) believed that quality of life of military families is better served through use of government housing, (3) been reluctant to designate a greater portion of existing government housing for use by junior personnel who are less able to afford private housing than senior personnel, and (4) used a housing allowance system that results in available private housing being considered unaffordable in some areas.

Many military installations in the United States have a justifiable need for government quarters. But steps are needed to ensure that government quarters are provided only at installations where the local communities cannot meet the housing needs of military families. In addition to formulating detailed goals and plans to achieve maximum use of private housing, such steps include standardizing and improving the housing requirements determination process, measuring members' preferences for family housing, designating more government housing for junior personnel, and evaluating potential changes to the housing allowance

system to foster greater reliance on private housing. In locations where the local communities can meet additional military family housing requirements, existing government housing units can be closed, rather than renovated or replaced, when the units reach the end of their economic life.

The military family housing program also does not result in equitable treatment for all families. Two thirds of all military families in the United States live in private-sector housing and pay about 20 percent of their housing costs out of pocket. The remaining one third live in government housing and do not pay any out-of-pocket costs for housing. As a result of the differences in out-of-pocket costs, the families that live in private housing typically have less disposable income than families of service members of the same paygrade that live in government housing. Further, because of the difference in the government's cost to provide government housing and to pay housing allowances, the military spends significantly more to house families in government quarters than it spends to house families of service members of the same paygrade in private housing.

Changes are needed in the housing program to address the inequities in the housing benefits provided to service members and their families. Because two thirds of military families already pay out-of-pocket costs and to eliminate the financial incentive for members to seek government housing, we believe that all families should pay the same portion of their housing costs whether they live in government or private housing. Under this approach, families living in government housing could (1) receive their housing allowances and begin to pay fair market rent for the housing or (2) continue to forfeit their housing allowances and begin to pay an amount equal to the average out-of-pocket costs paid by families living in private housing.

In either case, this approach would reduce the housing benefit for service members living in government housing because they would begin to pay a portion of their housing costs. However, to avoid reducing the total military family housing benefit, the total out-of-pocket amount paid by families living in government housing could be used to fund an offsetting increase in the housing allowance for all service members. In other words, housing allowances could be increased by an amount equal to the total out-of-pocket amount paid by families in government housing. In addition to helping the two thirds of military families that currently receive allowances, this would benefit those in government housing because an

increase in the housing allowance would reduce average out-of-pocket costs for all members.

Recommendations

We recommend that the Secretary of Defense take the following actions.

- Establish a long-term goal to reduce the use of government family housing in the United States to the minimum possible level. The goal should limit government housing to families assigned to locations where no adequate private housing alternative exists and to the small number of families that reside on base for military necessity.
- Revise the housing requirements process by issuing guidance to ensure that the process (1) matches military housing requirements with available private housing before matching the requirements with government housing and (2) considers suitable, affordable rental vacancies in excess of normal market levels to be available to the military. The revised guidance also should take into account the results of the DOD Inspector General's review of the housing requirements process.
- Develop information to better quantify the relationship between quality of life and family housing. The information should reflect service members' desires and preferences for private versus government housing under various circumstances, such as if housing allowances were increased, if rent or utilities were charged for government housing, and if no changes were made to the current program.
- Direct installation commanders to redesignate, to the maximum practical level, government housing reserved for senior personnel for use by junior personnel in areas where private housing is available and affordable for senior personnel but not for junior personnel. To reduce the potential impact on the families of senior personnel, this action could be accomplished over a phased period of time.
- Ensure that the DOD working group on housing allowances considers housing allowance changes that could result in greater flexibility in addressing housing problems and cost savings through greater reliance on private housing. For example, the group should consider whether (1) housing allowances should be based on average housing costs in an area, rather than actual member housing expenditures and (2) housing allowances could be used in new, innovative ways to solve specific housing problems more economically than constructing or renovating government housing.
- Develop plans to reduce the difference in the average amounts paid for housing by families of service members in the same paygrade by requiring

families that live in government housing pay a portion of their housing costs. These plans should include milestones for implementation.

Agency Comments and Our Evaluation

DOD partially concurred with our findings and recommendations (see app. II). At locations where adequate private housing is available, DOD stated that it will not support construction of new government housing and will carefully review proposals to replace deteriorated government housing. DOD also stated that it is pursuing initiatives to promote greater private investment in housing for military families and is studying potential changes to the housing allowance program that could result in correcting housing inequities and other problems. Further, DOD stated that it plans to revisit procedures for determining housing requirements and has chartered a study that will address the relationship between quality of life and family housing.

With regard to our recommendation that the Secretary of Defense direct installation commanders to redesignate, to the maximum practical level, government housing reserved for senior personnel for use by junior personnel, DOD stated that current policy allows installation commanders to give priority to lower grades and that DOD will not superimpose an overall policy that would obstruct local retention objectives and operational effectiveness. Although we understand DOD's concern, we believe that it would be beneficial for DOD to remind installation commanders of the junior member housing problem and to encourage the commanders to consider the current policy when evaluating use of existing on-base housing.

DOD did not agree with our draft recommendation to equalize the average amounts paid by service members living in private and government housing. DOD stated that requiring the one third of military members that live in government housing to pay a portion of their housing costs would reduce their benefits, and as a result, could have severe consequences for military retention and readiness. DOD also stated that it would cost too much to equalize the average amounts paid for housing by eliminating the out-of-pocket costs for the two thirds of military members that live in private housing.

We agree that the recommendation would have an adverse impact on the military families that live in government housing since they would begin paying a small portion of their housing and utility costs. However, allowing the housing compensation inequity to continue also has adverse impacts,

such as increasing demand for government housing even in areas where private housing is available. Further, because out-of-pocket costs paid by families living in government housing could be used to fund offsetting increases in housing allowances, housing benefits for the two thirds of military families that live in private housing actually could increase. To clarify the intent of the recommendation and to ease its impact by allowing time for phased implementation, we changed the recommendation to say that DOD should reduce, rather than equalize, the difference in the average amounts paid for housing by requiring families that live in government housing pay a portion of their housing costs.

Installations Included in Our Analysis of Housing Requirements

Service	Installation	Total government housing units	Visited by us	Identified as problem area by DOD^a
Army	Fort Eustis, Va.	1,330	Yes	No
	Fort Knox, Ky.	4,364	Yes	No
	Fort Bliss, Tex.	3,483	No	No
	Fort Hood, Tex.	5,559	No	Yes
	Fort Campbell, Ky.	4,188	No	No
	Fort Polk, La.	4,608	No	No
Air Force	Langley AFB, Va. ^b	1,606	Yes	No
	Little Rock AFB, Ark.	1,535	Yes	No
	Seymour Johnson AFB, N.C.	1,698	No	No
	Cannon AFB, N.Mex.	1,722	No	No
	Andrews AFB, Md.	2,495	No	No
	Bolling AFB, Md.	1,809	No	Yes
Navy	Norfolk Naval Complex, Va.	5,259	Yes	No
	San Diego Naval Complex, Calif.	8,229	Yes	Yes
	Pensacola Naval Complex, Fla.	885	No	No
	Mayport Naval Station, Fla.	1,281	No	Yes
	Bangor/Bremerton Naval Complex, Wash.	2,314	No	No
	New London Naval Submarine Base, Conn.	2,545	No	No
Marine Corps	Cherry Point Marine Corps Air Station, N.C.	2,764	Yes	No
	Twentynine Palms Marine Complex, Calif.	2,411	Yes	Yes
	Beaufort Marine Complex, S.C.	1,507	No	Yes

^aIn a May 9, 1995, response to questions from the Senate Committee on Armed Services, Subcommittees on Personnel and Readiness, the Department of Defense (DOD) identified installations in each service with the greatest shortfall of family housing on base and in the local community.

^bAir Force Base

Comments From the Department of Defense



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3000 DEFENSE PENTAGON
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August 23, 1996

Mr. Mark E. Gebicke
Director, Military Operations and Capabilities Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gebicke:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "MILITARY FAMILY HOUSING: Opportunities Exist to Reduce Cost and Mitigate Inequities," dated July 11, 1996 (GAO Code 703106/OSD Case 1188). The Department of Defense partially concurs with the report. Particular areas of concern follow.

An "iron link" exists between quality housing and readiness. Military readiness is dependent upon retaining a skilled, trained force, and retention is directly affected by quality of life. An important aspect of quality of life is quality housing. Separation of military members from their families for deployments, operational missions and training is a long standing fact of military life. As DOD's worldwide obligations fail to shrink and deployments grow, so grows the military community support needs of separated families. That support is characterized by a community that is safe, secure, and has the necessary community support facilities to accommodate families while providing the cohesiveness needed during family separations. Mission operations such as the Persian Gulf War, Joint Endeavor, Deny Flight, etc., highlight the increased frequency of deployments which have resulted in military members being separated from their families more often and for longer timeframes. This increased frequency of deployments results in a greater need for the remaining families to be located close to military installation support services.

The Department is pursuing initiatives to promote viable joint private housing ventures under the new authorities granted by the FY 96 Defense Authorization Act. The Department is also examining the potential benefits of establishing a price-based housing allowance system indexed to either income or housing-type. Such a system would provide members with equitable housing allowances sufficient to secure adequate housing regardless of their geographic location. It would also provide greater flexibility in addressing broader housing problems identified in the report and as recommended by GAO.

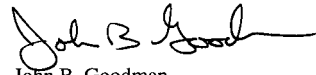
In regard to the report's recommendation to equalize out-of-pocket expenses for both on- and off-base, affordability is the issue. The funds required to reduce out-of-pocket costs for housing off-base are substantial. Each one percent reduction in out-of-pocket expenses for off-base housing equals about \$75 million in increased allowances per year. Conversely, providing equalization by charging for on-base housing could negatively impact retention and readiness.



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The report also recommended increasing the availability of government housing to junior enlisted through reversal of the current seniority system. Commanders have the authority to consider the family housing needs of paygrades E-1 to E-3, but requirements vary by grade (within Service, specialty or command). The Department will not superimpose an overall policy that would obstruct local retention objectives and operational effectiveness.

Quality housing for service members is a Department priority. Although we must take exception to some of the report's findings, we appreciate this effort. Enclosed are specific DoD comments to the report recommendations. Technical comments have been provided directly to the GAO for staff consideration.



John B. Goodman
Deputy Under Secretary
(Industrial Affairs and Installations)

Enclosure

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GAO DRAFT REPORT, DATED JULY 11, 1996
(GAO CODE 703106) OSD CASE 1188

**“MILITARY FAMILY HOUSING: OPPORTUNITIES EXIST
TO REDUCE COSTS AND MITIGATE INEQUITIES”**

DEPARTMENT OF DEFENSE OFFICIAL COMMENTS

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense establish a long-term goal to reduce the use of Government family housing in the United States to the minimum possible level. The goal should limit Government housing to families assigned to locations where no adequate private housing alternative exists and to the small number of families that reside on base for military necessity.

DOD RESPONSE: Partially concur. The Department will not support construction or acquisition of new government housing at locations where adequate private housing is available. In the Program Budget Decision process, the Department will carefully review the replacement of deteriorated government housing when alternative adequate housing is available in the private community. At surplus housing locations, units have been divested or demolished. However, the Department will protect its investment in housing by retaining adequate units that are economically maintainable or can be economically revitalized if eligible families are applying to voluntarily occupy them. Separation of military members from their families for deployments, operational missions and training is a long standing fact of military life. As DOD’s worldwide obligations fail to shrink and deployments grow, so grows the military community support needs of separated families. That support is characterized by a community that is safe, secure, and has the necessary community support facilities to accommodate families while providing the cohesiveness needed during family separations. Mission operations such as the Persian Gulf War, Joint Endeavor, Deny Flight, etc., highlight the increased frequency of deployments which have resulted in military members being separated from their families more often and for longer timeframes. This increased frequency of deployments results in a greater need for the remaining families to be located close to military installation support services. Finally, the GAO recommended long-term goal is served by our relocation and housing referral programs, and rental set aside agreements have increased access to community housing units. The Department has also organized itself to use new privatization tools provided under the National Defense Authorization Act of 1996.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense develop plans to equalize the average amounts paid for housing by service members of the same pay grade, regardless of whether they live in private housing or Government housing. These plans should include milestones for implementation.

DOD RESPONSE: Nonconcur. Imposing an actual reduction in benefits for a third of the active duty forces would have potentially severe consequences for military retention and readiness, as it would equate to a reduction in benefits for those personnel. Hence, the only viable alternative to implement this GAO recommendation would be to increase housing allowances and reduce

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absorption to zero. This action is not possible due to cost. As the Departmental mission and available funds permit, housing allowances will be increased, reducing absorption to the Congressional goal of 15 percent of national median housing costs. The availability of funds to reach that 15% goal, an additional \$322 million in FY97 alone for example, is not foreseeable. Approximately \$1.4 billion in additional housing allowances would be needed to completely eliminate out-of-pocket expenses in FY 97 alone. As an equity issue, any inequality is generally tempered by duty assignment rotation. The base housing population does not consist of the same one-third group of personnel always using on-base housing. Over the course of typical careers, most members who prefer government housing will experience mixed records of access to it. The report's comparison of the two populations, on-base and off, does not appear to consider the type or quality of private and government housing, or the economic considerations of members in selecting private housing versus paygrade-based assignments to government housing. Finally, many of those who elect to live in the community realize ownership equity and tax deductions which may compensate them for the cost differences.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense revise the housing requirements process by issuing guidance to ensure that the process: (1) matches military housing requirements with available private housing before matching the requirements with Government housing; and, (2) considers suitable, affordable rental vacancies in excess of normal market levels to be available to the military. The revised guidance should take into account the results of the DoD Inspector General's review of the housing requirements process.

DOD RESPONSE: Partially concur. The Department, in CY 1996, will revisit procedures for determining the availability to military members of suitable, affordable rental vacancies. The Department will take into account the DoD Inspector General's results, and accepted recommendations will be implemented in guidance issued by October, 1996. Meanwhile, GAO should maintain sensitivity to the dynamic nature of residential real estate markets, where present above-market vacancy rates do not represent economic equilibrium, but a short-term oversupply. Short-term distortions in supply and demand are not predictive of the long-term balance of housing assets and requirements.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense develop information to better quantify the relationship between quality of life and family housing. The information should reflect service members' desires and preferences for private versus Government housing under various circumstances, such as if housing allowances were increased, if rent or utilities were charged for Government housing, and if no changes were made to the current program.

DOD RESPONSE: Concur. We concur with further analysis and resolution of these relationships. A chartered study of military housing, by RAND, is designed to address these kinds of issues. This report is expected to be completed by July, 1997.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense direct installation commanders to redesignate, to the maximum practical level, Government housing reserved for senior personnel for use by junior personnel in areas where private housing is

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available and affordable for senior personnel but not junior personnel. To reduce the potential impact on families of senior personnel, this action could be accomplished over a phased period of time.

DOD RESPONSE: Partially concur. In 10 U.S.C. 2826, the construction standards (net square feet) are the same for grades E1 - E6, and the grade neutral DoD Housing Management Manual, DoD 4165.63-M, allows installation commanders to give priority to the lower grades. However, requirements for retention vary by Service, grade, specialty and assignment. The Department will not superimpose an overall policy that would obstruct local retention objectives and operational effectiveness.

Paygrade is not the sole determinant of ability to afford housing. The higher incomes of senior enlisted are offset to a degree by their tendency to have larger families than the junior enlisted, and 4 and 5 bedroom units are scarce in most rental markets.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense ensure that the DoD working group on housing allowances considers housing allowance changes that could result in greater flexibility in addressing housing problems and cost savings through greater reliance on private housing.

DOD RESPONSE: Concur. This recommendation offers the greatest potential to correct inequities and problems in the current system. Any system in which two-thirds of the housing allowances are not indexed to a measure of housing costs must be considered flawed. As a result, GAO correctly states that the members' share of housing costs have consistently exceeded the 15-percent that Congress intended, making adequate private housing for many of our junior members unaffordable. The DoD working group is already examining the potential benefits of establishing a price-based housing allowance system indexed to either income or housing-type. Such a system would provide members with equitable housing allowances sufficient to secure adequate housing regardless of their geographic location. It would also provide greater flexibility in addressing the broader housing problems identified in the report and as recommended by GAO.

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