Public-Private Partnerships: Lessons From Military Housing

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Editor's Note: *this column was originally published in the* Baltimore Sun *in August 2011 under the title 'How the Army Saved Big Bucks.'*

THE RANCOROUS DEBATE OVER THE FEDERAL BUDGET has obscured a central fact: The U.S. military has accomplished the near-impossible feat of reducing taxpayers' costs with bipartisan support in a large, complex, national program that nearly everyone admires.

The program, named Residential Communities Initiative (RCI), is modeled on Columbia, Jim Rouse's pioneering city that combines housing, jobs, shops and recreation. One of the first RCI projects, in Fort Meade, is now home to 2,600 military families. They live in walkable neighborhoods with community centers and other amenities. One of the latest RCI projects has begun at Aberdeen Proving Ground. Similar projects abound in 22 other states.

The Army, soldiers and outside experts attest to RCI's success. It cleared a backlog of $7 billion in unfunded maintenance costs that neither Congress nor the Defense budget would cover. Its partners are building more than 85,000 new and renovated houses and community facilities at about 20 percent lower cost than previous government projects and operating them to a higher standard. For every taxpayer dollar, the private sector has contributed $6. More than $12 billion in development value and 22,000 jobs have been created. The first "green" buildings are occupied, energy costs are lower, and sustainable management practices are installed. Both the program and individual projects have won numerous awards. Most important, the quality of life for soldiers and their families has vastly improved. As one sergeant said, "I reenlisted because I like my buddies and my wife loves our home."

How were these outcomes achieved? And what do RCI's practices tell policymakers about meeting public needs?

- First, reframe the problem. Budget myopia and siloed organizations still drive government, despite efforts to incorporate business practices. The military had approached housing in small, one-off projects with separate budgets and incremental funding for capital and operations. Such piecemealing was costly, did not engage private capital or creativity, and led to poor

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Apgar has advised more than 150 organizations in 12 countries. He established The Boston Consulting Group's real estate practice and was a partner of McKinsey where he developed an international practice and led Middle East operations. He was assistant secretary of the Army during the Clinton administration, responsible for global real estate and facilities, and led its Residential Communities Initiative program.

Apgar has pioneered real estate management innovations including a patented evaluation method. He has edited two books and authored more than 60 articles including a series in the Harvard Business Review. *He received the CRE's Felt Award for Creative Counseling (2002) and Ballard Award (2003). He also is a ULI Foundation Governor and former chairman of two ULI Councils.*

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long-term results. Officials reframed the problem by analyzing the entire installations portfolio with a strategic 50-year view, and resetting priorities based on future property values as well as current costs. RCI was scaled up to revitalize military communities across a range of markets, combining government and business resources without exposing taxpayers to undue risk.

- Second, engage business. Industry leaders were invited to help design RCI with the intent that many would execute it. U.S. real estate and homebuilding companies led the world in efficiency and effectiveness, but they did not participate in the military market. From dozens of industry forums and individual discussions, we learned which incentives would attract them and which hurdles would deter them. We assured them that government's role was to create the market, not manage it, and enlisted them to provide their best products and services. Cooperation infused the program; compromise protected it when naysayers tried to kill it.
- Third, introduce a "budget multiplier." While leaders focus on cutting the budget, the tougher challenge is multiplying it—making tax dollars work harder and go further by attracting private capital to enlarge public investment. In business, this is leverage: the ratio of debt to equity. Prudently employed, leverage fuels growth and impact. In government, the budget multiplier is the ratio of private capital to taxpayer commitments. The multiplier enables government to do more with less. Before the recession, RCI achieved a multiplier of 11 private dollars for each public dollar committed. Even today, when the banks' funding capacity has sharply declined, the multiplier is 6:1.
- Fourth, secure bipartisan support. RCI was launched in the Clinton era, grew during the Bush era, and is being completed in the Obama era. At the start, Republicans held the majority in Congress. Because RCI engaged business, we thought they would be enthusiastic and the Democrats resistant. But perversely, we confronted strong Republican opposition and gained critical Democratic support. The solution lay in using the budget multiplier and the promise of cheaper, better housing to justify multi-year budget commitments and radical changes in business practices. After a fractious process, with persistent, behind-the-scenes congressional leadership, the program was approved. Since then, both sides have supported it and, deservedly, claimed credit for it.
- Fifth, reform the system. Every organization has costly, cumbersome, even wasteful systems and procedures. One of the worst is federal contracting. Industry leaders told us they would consider RCI only if procurement was fixed. We reformed the system, within the law, by shifting from the traditional proposal-and-bid system to qualifications-based selection. This cut procurement time by half, shaved expenses by one-third, and encouraged private partners to contribute their experience and expertise in jointly planned RCI projects. It opened the defense housing market to first-class firms with proven track records and long-term outlooks that shared the risks as well as rewards. Simultaneously, we transformed the military mindset from adversarial "them-us" contractor relationships to cooperative "we"-driven partnerships. The recession could have broken the partners' spirit; instead, as they strove together to survive, their mutual respect deepened.

Federal policymakers face staggering challenges. More than 40 percent of the defense budget—$220 billion—is spent on military infrastructure. This must be cut. The nation's infrastructure deficit is more than $2 trillion. This must be recapitalized. RCI, now the largest public-private partnership in the federal government, offers a proven model—not fiscal magic—for enlisting private capital and ingenuity in addressing these needs. It should be extended, both within the Defense Department and to other departments, such as Housing and Urban Development, Transportation, and Veterans Affairs. Despite the current crisis, there are billions of private investment dollars waiting for well-conceived public projects. Let's capture them, as RCI has done. ■