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Report to Congressional Committees

May 2011

MILITARY HOUSING

Enhancements Needed to Housing Allowance Process and Information Sharing among Services

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May 2011

MILITARY HOUSING

Enhancements Needed to Housing Allowance Process and Information Sharing among Services

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Highlights

Highlights of GAO-11-462, a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) paid active duty military personnel over $18 billion in housing allowances in fiscal year 2010. DOD sets housing allowance rates annually based on market costs of rent, utilities, and renter's insurance. Also, DOD has identified 26 installations significantly impacted by expected growth in personnel due to various rebasing actions. The Senate report accompanying a bill for the National Defense Authorization Act for Fiscal Year 2011 (S. 3454) directed GAO to review DOD's rate-setting process, among other issues. GAO determined (1) whether there are enhancements to strengthen DOD's rate-setting process and (2) whether service members have encountered challenges in obtaining off-base housing. GAO reviewed program documents, including a 2010 DOD report to Congress, analyzed data, and interviewed DOD officials and subject matter experts.

What GAO Recommends

GAO is recommending that DOD (1) provide information on the costs that comprise the housing allowance to installation officials and service members, (2) assess the benefits and drawbacks of revising the definition of "available" properties for data collection, (3) improve its processes to estimate allowance costs for the budget, and (4) develop a formal process for installations to share information on housing tools.

DOD generally concurred with all four of GAO's recommendations.

View GAO-11-462 or key components.
For more information, contact Brian J. Lepore at (202) 512-4523 or leporeb@gao.gov.

What GAO Found

DOD uses a data-intensive process to set housing allowance rates that officials said generally meets program goals. Key quality assurance steps in DOD's process include involving installations in the rental data collection process and verifying data prior to calculating allowance rates. However, some enhancements related to (1) providing additional information to installation officials and service members, (2) defining a key term for data collection, and (3) developing more accurate cost estimates for budget requests could further strengthen the process. First, installation officials and service members do not have access to information on the three costs that comprise the allowance—rent, utilities, and renter's insurance—because DOD issues a single rate for each pay grade. As a result, installation officials cannot help ensure the accuracy of the rates and service members are not fully informed of potential housing costs. Second, in areas with low vacancy rates, officials said it can be difficult to find enough rental properties that meet the definition of available because the definition is limited to rentals on the market within 4 to 6 weeks prior to data collection. As a result, properties that some installations submit may not be fully representative of rental costs in the area or representative properties may be excluded, increasing the possibility of inaccurate rates in an area. Third, the military services have consistently underestimated the amount needed to pay the allowance by $820 million to $1.3 billion each year since 2006 when preparing budget requests, in part because the services' processes do not allow them to accurately estimate the number of service members who will receive the housing allowance. GAO recognizes the difficulties in developing accurate housing allowance cost estimates. However, as a result of consistently underestimating the amount needed to pay the allowance—which is an entitlement for service members and must be paid—DOD has had to shift funds that were budgeted for other programs, which could disrupt the funding of the other programs. Also, DOD's budget does not provide the full picture of housing allowance costs, limiting the ability of Congress and DOD to make fully informed funding decisions.

Some service members have encountered challenges in obtaining off-base housing at some growth installations. Military service data show current housing deficits, ranging from about 1 percent of total demand to more than 20 percent, at 19 of 26 installations DOD identified as significantly impacted by growth. Installation officials GAO interviewed expect such housing challenges to continue or worsen. DOD uses a number of tools to address these housing challenges that could be used at other installations, such as expanding housing privatization projects and encouraging collaboration between installations and communities. GAO found that installations share information on these tools on an ad hoc basis, such as through e-mail messages or at conferences, because DOD does not have a formal communications process that would allow them to store and share such information. As a result, DOD cannot ensure that installations that are currently experiencing housing challenges or may experience such challenges in the future will have the needed information on various tools that can be used to address these challenges.

Contents

Letter 1

Background 3
DOD's Data-Intensive Process Helps to Ensure the Accuracy of Housing Allowance Rates, and Some Enhancements May Further Strengthen the Process 10
Service Members Have Encountered Housing Challenges at Some Growth Installations and DOD Does Not Have a Formal Information-Sharing Process for Tools to Address Such Challenges 23
Conclusions 31
Recommendations for Executive Action 32
Agency Comments and Our Evaluation 33

Appendix I **Scope and Methodology** 36

Appendix II **Summary of DOD's Process to Set Housing Allowance Rates** 40

Appendix III **Comments from the Department of Defense** 46

Appendix IV **GAO Contact and Staff Acknowledgments** 49

Tables

Table 1: 2011 National Average Monthly Housing Allowance for Service Members with Dependents, by Pay Grade 40
Table 2: 2011 National Average Monthly Housing Allowance for Service Members without Dependents, by Pay Grade 41

Figures

Figure 1: DOD Obligations for Basic Allowance for Housing for Fiscal Years 2000 through 2010 5
Figure 2: DOD's Annual Housing Allowance Rate-Setting Process 6

Figure 3: Domestic Military Installations Expecting Significant DOD-Related Growth as of January 2011 9
Figure 4: Difference between Amount Estimated and Obligated for Housing Allowances, Fiscal Years 2006 through 2010 19

Abbreviations

BRAC	Base Realignment and Closure
DOD	Department of Defense

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United States Government Accountability Office
Washington, DC 20548

May 16, 2011

Congressional Committees

The Department of Defense (DOD) spent about $18 billion in fiscal year 2010 on housing allowances for active duty military personnel that live in the United States.[1] Comprising about 20 percent of a service member's annual direct cash compensation, the Basic Allowance for Housing is designed to cover the average monthly costs of rent, utilities, and renter's insurance.[2] Each year, DOD collects data and sets housing allowance rates based on market costs of these three housing cost components for 364 separate areas to account for regional variances in housing expenses within the United States. Since housing costs may change over time, DOD annually adjusts housing allowance rates to better reflect actual costs of housing in the community. DOD primarily relies on communities to provide housing for about two-thirds of service members, so accurate housing allowances and a supply of adequate and affordable housing are both necessary to satisfy military housing needs. Twenty-six domestic military installations have or are projected to experience population growth due to the continued implementation of several DOD initiatives—such as Base Realignment and Closure (BRAC), Grow the Force, Army Modularity, and Global Defense Posture and Realignment. For some installations, this growth has already occurred due to ongoing implementation of these various major initiatives, creating increased

[1]DOD provides service members with other types of housing allowances depending on varying circumstances, like the Overseas Housing Allowance, the Basic Allowance for Housing differential for service members paying child support, and the partial Basic Allowance for Housing for unaccompanied service members living in government-owned housing. This report addresses DOD's process to set the Basic Allowance for Housing for service members with and without dependents living in the United States, which comprised more than 90 percent of annual housing allowances paid to military personnel in 2010. Throughout this report, references to the Basic Allowance for Housing or housing allowance include only service members receiving the allowance at the "with" and "without" dependents rates within the United States, unless otherwise noted.

[2]DOD provides active duty personnel with a comprehensive compensation package that includes a mix of cash, such as basic pay; noncash benefits, such as health care; and deferred compensation, such as retirement pension. Service members, including eligible reserve personnel serving on active duty, receive the basic allowance for housing as a cash payment every month while on active duty. For more information on service members' compensation, see GAO, *Military Personnel: Military and Civilian Pay Comparisons Present Challenges and Are One of Many Tools in Assessing Compensation*, GAO-10-561R (Washington, D.C.: April 1, 2010).

demands on both DOD and the surrounding communities to provide adequate and affordable housing for service members and their families.

In 2009, Section 605 of Public Law 111-84 required the Secretary of Defense to review two aspects of the housing allowance program and submit a report that included recommendations, as appropriate.[3] DOD issued its report in June 2010.[4] Subsequently, the Senate report accompanying a bill for the National Defense Authorization Act for Fiscal Year 2011 (S. 3454) directed GAO to review DOD's report to determine if the department is using the most effective, accurate, and efficient system for setting Basic Allowance for Housing rates.[5] The Senate report also directed GAO to independently assess the effects of base realignment decisions on military installation populations and whether DOD has accounted for these basing decisions in determining housing allowance rates. Based on the congressional direction on these two issues, we determined (1) whether there are enhancements that DOD could incorporate to strengthen its process to set housing allowance rates, including DOD's process to budget for the allowance, and (2) whether service members assigned to installations expecting significant growth as a result of BRAC or other basing initiatives have encountered challenges in obtaining off-base housing and the extent to which DOD uses and shares tools to address these challenges.

To determine whether DOD could enhance its housing allowance rate-setting process, we reviewed DOD's report on housing standards and surveys and other guidance and reports discussing DOD's rate-setting process. We also analyzed DOD's budget justification documentation for the housing allowance. We met with officials from relevant organizations and offices within DOD, including the Defense Travel Management Office, the Office of the Under Secretary of Defense (Comptroller), military service officials who oversee the housing allowance program, military service officials involved with developing the housing allowance cost estimates, officials from five military installations expecting personnel increases, and the contractor that assists DOD with collecting housing cost data used to set allowance rates. Additionally, we interviewed representatives of organizations with recognized expertise in military

[3]Pub. L. No. 111-84, § 605.

[4]DOD, *Report on Housing Standards and Housing Surveys Used to Determine Basic Allowance for Housing* (Washington, D.C.: June 18, 2010).

[5]S. Rep. No. 111-201 at 145 (2010).

compensation and associations that represent the interests of military service members and their families. We considered a number of potential enhancements to DOD's current rate-setting process and performed further analyses to determine the benefits and drawbacks of each, including potential financial savings or costs. To determine whether service members have encountered challenges in obtaining off-base housing at installations expecting or have incurred significant personnel increases over the last several years and the extent to which DOD uses and shares tools to address these challenges, we analyzed DOD and GAO reports related to growth installations and housing demand. Additionally, we interviewed housing officials from the Directorate of Housing and Competitive Sourcing within the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), each of the military services, and five installations projected to increase in population. (See appendix I for a more detailed description of our scope and methodology.)

We conducted this performance audit from August 2010 through May 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

A member of the uniformed services—including the Air Force, Army, Coast Guard, Marine Corps, National Oceanic and Atmospheric Administration, Navy, and Public Health Service—who is entitled to basic pay is also eligible to receive the Basic Allowance for Housing, subject to certain exceptions.[6] The Secretary of Defense—through the Defense Travel Management Office within the Office of the Under Secretary of Defense (Personnel and Readiness)—sets the housing allowance rates for all personnel who receive the allowance. According to the Defense Travel Management Office, senior executives and flag officers from the Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration Corps, in addition to the three military departments, provide oversight of the housing allowance program through the Per Diem Travel and Transportation Allowance Committee.

[6]For example, certain personnel who are assigned to government-owned quarters may not be eligible to receive the basic allowance for housing.

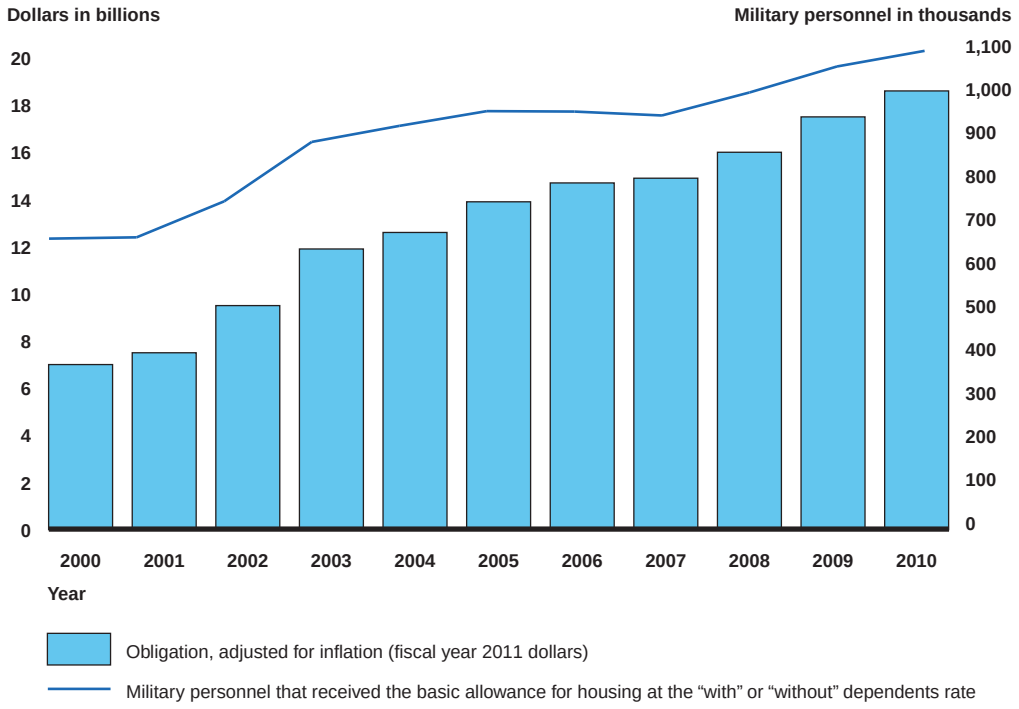
The legislation that created the Basic Allowance for Housing program, Section 603 of the National Defense Authorization Act for Fiscal Year 1998,[7] among other things, consolidated two authorities for providing housing allowances—the Basic Allowance for Quarters program and the Variable Housing Allowance program[8]—and changed the way DOD calculates housing allowances to be based on adequate housing for civilians with comparable income levels in the same area, rather than on service members' reported housing expenditures, which was a major factor in calculating the Variable Housing Allowance.[9] According to DOD, housing allowance rates based on the market costs of rental housing ensure a better correlation between allowance payments and rental costs. In January 2000, the Secretary of Defense announced a quality-of-life initiative to increase housing allowances gradually over a 5-year period to eliminate a service member's average out-of-pocket housing costs from an average of more than 18 percent in 2000. Figure 1 shows the amounts DOD obligated for the housing allowance and the number of service members who received the allowance from fiscal years 2000 through 2010.

[7]National Defense Authorization Act for Fiscal Year 1998, Pub. L. No. 105-85, § 603 (1997), codified as amended at 37 U.S.C. § 403.

[8]From 1949 to 1981, members of the uniformed services received the Basic Allowance for Quarters, which varied by a service member's dependency status but did not vary by geographic location. In 1981, the Basic Allowance for Quarters was supplemented by the Variable Housing Allowance, which was location specific and intended to capture the variation in housing costs across the country.

[9]37 U.S.C. § 403(b)(2).

Figure 1: DOD Obligations for Basic Allowance for Housing for Fiscal Years 2000 through 2010



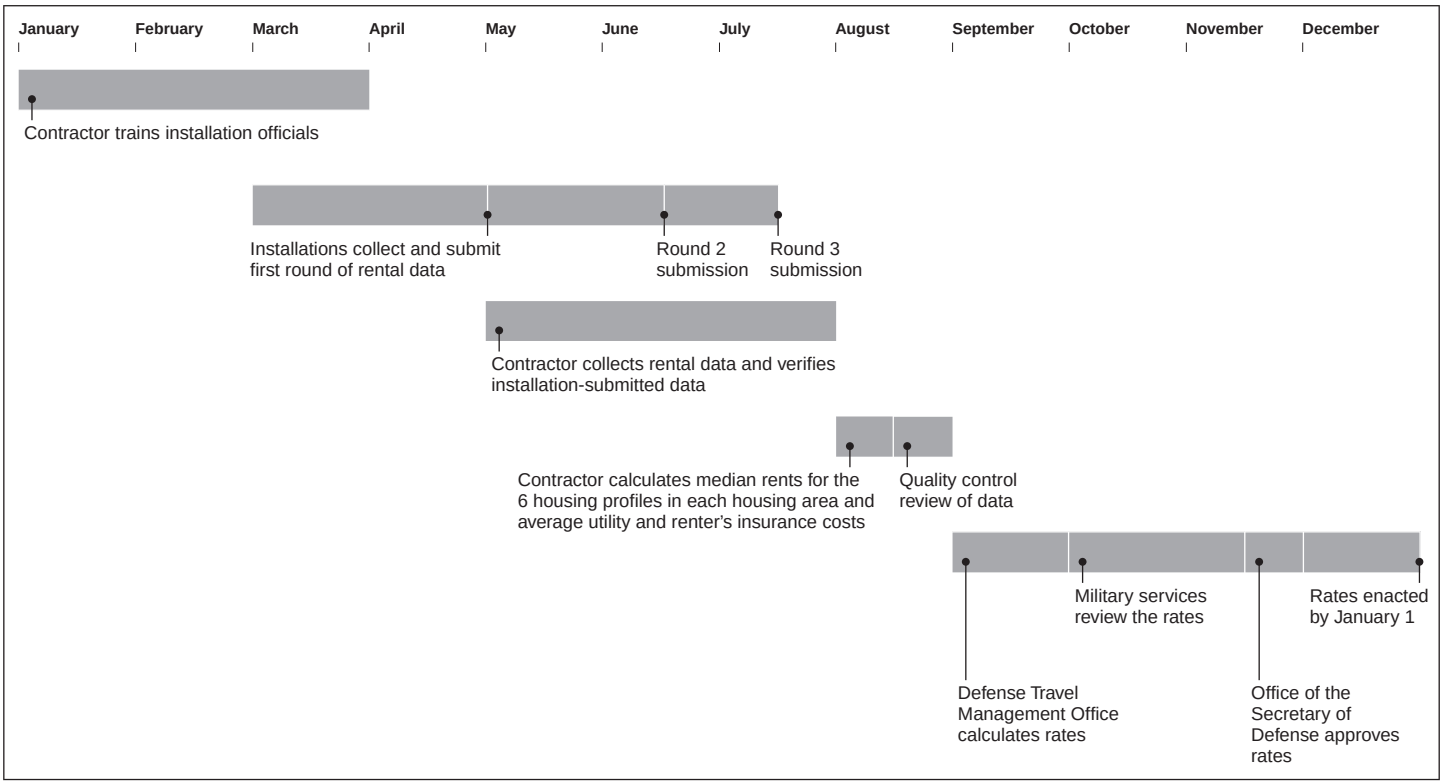
Source: GAO analysis of DOD data.

Note: These amounts represent basic allowance for housing payments for military personnel with and without dependents, but exclude the partial Basic Allowance for Housing, Basic Allowance for Housing differential, and Overseas Housing Allowance.

Housing allowance rates vary based on a service member's pay grade, dependency status, and geographic location. DOD established six housing profiles, ranging from a one-bedroom apartment to a four-bedroom single-family detached house, and associated each profile with a military pay grade. Service members with dependents receive a higher housing allowance than those in the same pay grade and location without dependents. To set housing allowance rates by geographic area, DOD established 364 housing areas within the United States. These areas are generally within a 20-mile or 1-hour commute from military installations. In total, DOD calculates nearly 20,000 separate allowance rates each year. To set these rates, DOD uses a yearlong multistep process that involves hundreds of officials from installation housing offices, the Defense Travel Management Office, compensation offices in each military service, and a contractor that is a recognized leader in the field of collecting cost-of-living data. Each year, installation housing officials submit rental data on the six housing profiles in the 364 housing areas to the contractor. The

contractor then verifies the data; collects additional rental data on its own; and determines average rental, utility, and renter's insurance costs for each housing profile in the 364 housing areas. The contractor then provides the housing cost data to the Defense Travel Management Office, which calculates housing allowance rates for each pay grade for service members with and without dependents in each housing area. Figure 2 shows the annual housing allowance rate-setting process. (See appendix II for a more detailed description of the annual housing allowance rate-setting process.)

Figure 2: DOD's Annual Housing Allowance Rate-Setting Process



Source: GAO analysis of DOD data.

Housing allowance rates in a housing area can fluctuate from year to year since local housing costs change over time. If housing allowance rates in an area increase, then a service member stationed in that area will receive the increased rate. However, if housing allowance rates in an area decrease from one year to the next, the service member retains the higher

housing allowance rate, known as "rate protection," as long as their location and dependency status remain unchanged and their pay grade does not decrease. This protects service members already committed to a lease. For example, at Nellis Air Force Base near Las Vegas, Nevada, housing allowances decreased between 2010 and 2011 for all pay grades and dependency statuses. The monthly housing allowance for an enlisted service member in the E-7 pay grade without dependents decreased from $1,200 to $1,107. If a service member stationed at Nellis Air Force Base in 2010 with this pay grade and dependency status remained at the installation in 2011 with the same pay grade and dependency status, then the service member's housing allowance would remain $1,200. However, a service member at the same pay grade and dependency status that relocated to Nellis Air Force Base in 2011 would receive a monthly housing allowance of $1,107.

DOD policy is to rely on the private sector as the primary source of housing for personnel normally eligible to draw a housing allowance. While DOD may require certain service members to live on base, such as key personnel and most junior-enlisted personnel without dependents, about two-thirds of service members and their families in the United States choose to live off base in the local community. If a service member chooses to live on base in privatized family housing, the service member pays the privatization developer rent that is usually equal to the housing allowance. While DOD calculates the housing allowance based on rental market costs, service members may choose to apply their allowance toward purchasing a home or renting a housing unit that could be more or less than their housing allowance. Service members are permitted to keep any portion of their housing allowance not spent on housing and conversely will have to use other funds to pay housing costs that exceed their allowance.

Several DOD initiatives are contributing to changes in housing needs in the local communities due to the relocation of military personnel, including:

- **Grow the Force:** In January 2007, the President announced and Congress approved an increase in the Army end strength by more than 74,000 active duty, National Guard, and reserve personnel and the Marine Corps end strength by 27,000 Marines through the Grow the Force initiative. The services met these increased end strength goals by 2009.
- **BRAC:** Several installations are experiencing growth due to implementation of the 2005 BRAC round. Under the 2005 round, DOD is implementing 182 recommendations which must be completed by the statutory deadline of September 15, 2011. These recommendations include

a large number of realignments, prompting significant personnel movements among installations.

- **Army Modularity:** The Army is restructuring its force as it implements force modularity, which entails converting units to brigade combat teams, resulting in some installations receiving one of more of these brigade combat teams.
- **Global Defense Posture and Realignment:** DOD began to realign its overseas basing structure in 2004 and planned to relocate about 44,500 Army personnel from overseas to domestic installations by 2013.
- **Iraq Drawdown:** DOD is relocating many troops from Iraq to domestic installations, although the net growth at these installations may be offset by troops deploying to Afghanistan.

As a result of these initiatives, DOD's Office of Economic Adjustment has identified 26 domestic installations significantly impacted by the growth in military populations.[10] This growth has raised several concerns, one of which is the availability of housing on base and in the communities near installations. We have previously reported on the growth-related challenges at growth installations and in the communities surrounding them.[11] Specifically, we found that many communities will face growth-related challenges in the short term, including challenges to identify and provide additional infrastructure—such as schools, roads, housing, and other services—to support the expected population growth.[12] Figure 3 shows the location of growth installations as defined by DOD's Office of Economic Adjustment as of January 2011.

[10]DOD's Office of Economic Adjustment designated 24 communities surrounding 26 military installations as "growth communities" eligible for assistance. One community in North Carolina was in close proximity to three Marine Corps installations. For the purposes of this report, we describe the growth by installation name rather than by the community name and refer to these installations generally as "growth installations." Significant growth refers to the establishment or expansion involving the assignment of more than 2,000 direct military, civilian, and contractor DOD personnel to an installation or more military, civilian, and contractor personnel than the number equal to 10 percent of the number of persons employed in counties or independent municipalities within 15 miles of the installation, whichever is lesser.

[11]GAO, *Defense Infrastructure: High-Level Federal Interagency Coordination Is Warranted to Address Transportation Needs beyond the Scope of the Defense Access Roads Program*, GAO-11-165 (Washington, D.C.: January 26, 2011); *Military Base Realignments and Closures: Transportation Impact of Personnel Increases Will Be Significant, but Long-Term Costs Are Uncertain and Direct Federal Support Is Limited*, GAO-09-750 (Washington, D.C.: September 9, 2009); and *Defense Infrastructure: High-Level Leadership Needed to Help Communities Address Challenge Caused by DOD-Related Growth*, GAO-08-665 (Washington, D.C.: June 17, 2008).

[12]GAO-08-665.

Figure 3: Domestic Military Installations Expecting Significant DOD-Related Growth as of January 2011

Source: DOD; Map Resources (map).

The National Defense Authorization Act for Fiscal Year 2010 required the Secretary of Defense to conduct a review of two aspects of the housing allowance program and submit a report by July 1, 2010.[13] DOD hired a contractor with expertise in human services consulting to undertake the study and perform the analyses that served as the basis for DOD's report. DOD submitted its report to Congress in June 2010.[14] DOD's report contained a review of the housing profiles used to determine housing allowance rates and a review of the process and schedule for collecting

[13]Pub. L. No. 111-84, § 605 (2009).

[14]DOD, *Report on Housing Standards and Housing Surveys Used to Determine Basic Allowance for Housing* (Washington, D.C.: June 18, 2010).

housing data that provide the basis for setting DOD's housing allowance rates. DOD's 2010 report to Congress states that overall housing allowance rates are generally comparable to civilian housing expenditures for most pay grades but are not identical.[15] Also, data the contractor provided to DOD for its use in preparing its report to Congress do not show a clear trend in housing choices by civilians that would support changing the profiles. Defense Travel Management Office officials said that they study the relationship between housing choices of civilians and the housing allowance rate about every 3 years, but have not made changes to the housing profiles since implementing the current rate-setting process. Although the contractor analyzed possible alternatives to improve the rate-setting process, neither the contractor nor DOD's report to Congress recommended any changes to the current process.

DOD's Data-Intensive Process Helps to Ensure the Accuracy of Housing Allowance Rates, and Some Enhancements May Further Strengthen the Process

DOD uses a data-intensive process to set housing allowance rates that officials said generally meets the goals of the program, although enhancements related to providing information to installation officials and service members, defining a key term for data collection, and developing more accurate cost estimates for the allowance to use in budget requests, could further strengthen the process.

DOD Uses a Data-Intensive Process to Set Housing Allowance Rates

DOD uses a data-intensive process to set housing allowance rates that includes a number of quality assurance steps designed to help ensure the reasonable accuracy of the rates, such as:

- **Involving installation officials in the data collection process:** The housing office and command leadership at each installation have the opportunity to submit properties for inclusion in the data used to set the rates and identify areas for exclusion from the data. Data collection efforts involve numerous installation officials, with officials from the five installations we reviewed estimating that they spent from 12 to 275 staff

[15]DOD, *Report on Housing Standards and Housing Surveys Used to Determine Basic Allowance for Housing* (Washington, D.C.: June 18, 2010).

days per year on data collection tasks. By involving installation officials in the data collection process, DOD benefits from local expertise to help ensure that the properties used to set the housing allowance rates are adequate in terms of the quality of the properties and appropriate for military personnel of the designated rank.

- **Reviewing the data before data collection is complete:** After installations submit their first round of housing cost data, representatives from each of the military services meet with the Defense Travel Management Office and the data collection contractor to review the submitted data. The service representatives generally check that each of the installation housing offices submitted data and that the data submitted are reasonable when compared to past rental rates. If a service representative identifies an installation that has not submitted data or anomalies in the data, the service representative typically contacts the installation to address the situation. The service representatives and officials from the Defense Travel Management Office said that these reviews have been effective at verifying that the installations are following DOD's data submission guidance and determining whether the data appear reasonable to include in the rate-setting analysis.
- **Verifying the rental data:** The contractor hired by DOD to analyze the data contacts landlords of installation-submitted properties to verify that the rental rates are current and accurate and that the property is located within the boundaries of the military housing area. This verification process also helps to ensure the accuracy of the data.

Officials we interviewed generally stated that DOD's rate-setting process is an effective process that meets the purpose and goal of the program, which is to provide fair housing allowances to service members and to help service members cover the costs of housing in the private sector. These officials identified few potential changes to the rate-setting process, in part since DOD has implemented several changes to the rate-setting process in the decade since establishing the program. For example, in 2003, the contractor started comparing the rental data submitted by the installation housing offices to the data the contractor collected as an additional quality assurance step. In 2011, the data collection contractor began a comprehensive review of the housing area boundaries to verify that the housing areas are accurate.

Along the same lines, DOD's 2010 report to Congress noted that their review uncovered relatively few complaints or concerns with the rate-setting process, that participants believe the current process works well,

and that problems have been addressed through refinements to the process.[16] Additionally, our 2001 review found that the contractor followed reasonable procedures to ensure that the housing data collected were accurate.[17] DOD still uses the same contractor for data collection and the fundamental procedures that we reviewed in 2001 are still in place or have been enhanced. In appendix II of this report, we have summarized DOD's data-intensive process for setting housing allowance rates.

DOD sets its housing allowance rates for an area based, in part, on current market rental cost data, which DOD collects annually for each housing area. Thus, any cost increases—due to changes in the supply of or demand for housing or any other reason—should be captured through the annual rate-setting process, according to Defense Travel Management Office and service compensation officials. These officials noted that DOD does not explicitly consider the supply of or demand for housing, including changes due to planned population changes at an installation, when determining housing allowance rates, noting that revising housing allowance rates to attempt to account for installation population changes would likely lead to inaccurate rates.

From 2006 through 2009, DOD had the authority to temporarily increase housing allowance rates in disaster areas or areas with installations that experienced a sudden population increase.[18] Defense Travel Management Office officials stated that three installations—Fort Riley, Kansas; Cannon Air Force Base, New Mexico; and Fort Drum, New York—inquired about the authority, but the regular rate-setting process was able to address the changes in housing costs and the authority was not used. According to these officials, population changes to date have not occurred so rapidly that they could not be addressed through the regular rate-setting process, and they did not expect to need to implement the provision in response to population changes. However, they noted that they cannot speculate on the effects of a natural disaster on housing costs, so having the authority to react to such an event would be desirable.

[16]DOD, *Report on Housing Standards and Housing Surveys Used to Determine Basic Allowance for Housing* (Washington, D.C.: June 18, 2010).

[17]GAO, *DOD Personnel: Improvements Made to Housing Allowance Rate-Setting Process*, GAO-01-508 (Washington, D.C.: April 16, 2001).

[18]37 U.S.C. § 403(b)(7). At the time of our report, the House Armed Services Committee was considering a proposal to reinstate this authority.

Installation Officials and Service Members Do Not Have Access to All Three Housing Allowance Rate Cost Components

Installation officials and service members do not have access to information on the amount or proportion of the housing allowance rate derived from each of the three costs that comprise the housing allowance. As part of the process to determine housing allowance rates, the contractor calculates the median monthly rental costs, average monthly renter's insurance costs, and average monthly utility costs for each of the six housing profiles, based on local rental market costs. DOD sums these figures to determine the total housing allowance rate for each of the housing profiles, and then uses that data to determine a single figure for the housing allowance for each pay grade. Because DOD issues a single figure for the housing allowance rate for each pay grade, installation officials and service members do not know the amounts of the three costs that comprise the total housing allowance rate.

Without access to information on the three costs that comprise the housing allowance rate, installation officials cannot help ensure the accuracy of the total housing allowance rates. The data collection guidance provided to the military installations states that the installations' expertise and knowledge of the local market is crucial to the rate-setting process. Installation officials participate in the rate-setting process by submitting data on rental costs in the area. However, DOD is not taking full advantage of the installations' expertise and knowledge of the local market to help ensure the accuracy of the total housing allowance rates, and particularly the utility and renter's insurance cost data. Rather, the data collection contractor determines the average utility and renter's insurance costs in each housing area for each housing profile through databases. Furthermore, the contractor collects additional data on rental costs in each housing area to supplement the data that installation officials submit. Officials from the Defense Travel Management Office said that installation officials do not have access to the final calculations of median rent, average utilities, and average renter's insurance costs since they believe most of the officials' questions about housing allowance rates can be addressed without providing such detail. While we did not identify specific concerns with the accuracy of these databases or the rental data collected by the contractor, installation officials we interviewed raised concerns that they do not have access to information that would allow them to help ensure the accuracy of the costs and the resulting housing allowance rates.

Officials we interviewed at the five installations said that the total housing allowance rates in their area generally appeared to be accurate for most of the housing profiles, but said that they could not fully confirm the accuracy of the rates without additional information on the three

components—rent, utilities, and renter's insurance—used to calculate the rate. For example, an official at one installation noted that the housing allowance for the area appeared slightly lower than the average housing costs in the area and originally questioned the accuracy of the utility costs for the area. When notified that utility costs comprised about 25 percent of the total housing allowance in 2011 for that housing area, the housing official said the utility cost used in the rate calculation appeared reasonable for the amount that service members are paying for utilities, but noted that the remaining amount of the allowance was significantly lower than the rental data the installation submitted and the rental costs in the area. While DOD's report to Congress does not mention issues related to providing additional information to installation officials or service members, the contractor's report that served as the basis of DOD's report noted the need for a feedback mechanism to allow installations to see the average cost data prior to housing allowance rates being calculated.

Additionally, without access to information on the three costs that comprise the housing allowance rate, service members cannot take such costs into full consideration when choosing off-base housing, particularly when moving into a new area. Overall, rental costs comprise the majority of the housing allowance rate, averaging more than 75 percent of the rate across all housing areas and profiles, and the utility costs averaged more than 20 percent of the housing allowance rate with renter's insurance costs comprising the remaining portion. However, these averages vary by housing area and profile, as is to be expected given the unique local housing markets. Our analysis shows that the local utility costs DOD used to calculate the 2011 housing allowance rates are within 5 percent of the housing profile's average in more than two-thirds of areas, but the utility costs ranged from nearly 8 percent to nearly 40 percent of the total housing allowance, which could be a significant cost difference when moving between housing areas and could affect service members' decision-making process for choosing affordable housing. For example, if an enlisted service member with dependents in the E-6 pay grade relocated from Schofield Barracks, Hawaii, to Fort Knox, Kentucky, the percentage of the housing allowance rate calculated from the area's utility costs would increase from about 15 percent of the total housing allowance at Schofield Barracks to about 26 percent at Fort Knox. Similarly, if a Marine with dependents in the same pay grade relocated from Camp Pendleton, California, to Marine Corps Air Station Cherry Point, North Carolina, the percentage of the housing allowance calculated from local utilities would increase from about 15 percent of the total housing allowance at Camp Pendleton to about 24 percent at Marine Corps Air Station Cherry Point. Without knowledge of the average utility costs as a

percentage of the housing allowance in the new area, the service member may make decisions on where to live and how much of the housing allowance to spend on rent, utilities, and renter's insurance based on his or her experience at the previous duty location. In that case, the service member in either of the above examples would underestimate the amount needed to pay the average utilities at the new duty location by more than $100 per month, or about 10 percent of the total housing allowance at the new locations, and would have to pay the excess amount from other income sources.

Housing officials at four of the five installations we interviewed said that without information on the breakdown of estimated costs for utilities and renter's insurance, some landlords view the overall housing allowance rate as the market rental rate and set rental rates equal to the full housing allowance rate for a specific pay grade without regard to utility expenses that would also need to be paid. Also, some service members choose housing in which the rental cost is equal to the full housing allowance rate without fully understanding the financial implications when rent does not include the additional costs of utilities or renter's insurance. A service member paying more than the allowance rate to obtain housing does not necessarily mean that the housing allowance rate in an area is not accurate. The housing allowance rate is set based on the average housing costs in an area and most service members in an area will not have housing costs exactly equal to the average. A service member who chooses housing in which costs exceed these averages will have to pay more than the housing allowance for some housing costs and, conversely, a service member with costs below the averages can keep the remaining amount. We have previously reported on the importance of educating service members on their compensation, specifically noting that past studies suggest that revealing more information about components of compensation has a greater impact on the component's satisfaction rate than the actual amount itself.[19]

Officials from the Defense Travel Management Office said they believe that publishing information on the three costs that comprise the total housing allowance may be distracting to the service members or may lead to service members' feeling that their choices are restricted, as few service members have housing costs that exactly match the costs used to

[19]GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System*, GAO-05-798 (Washington, D.C.: July 19, 2005).

calculate the allowance. Installation housing officials and an official from one military service that we talked to generally disagreed with this view and said that the additional information would allow service members to make better-informed decisions rather than constraining service members' housing choices. During our review, DOD began to make available some high-level information about utility costs to service members and installation officials upon request. Specifically, DOD's data collection contractor updated its information sheet on the methodology for calculating utility costs, which each of the military services' housing allowance representatives have and can distribute when asked about utilities. DOD's service housing allowance representatives said that they plan to provide the utilities information sheet when responding to installation officials' questions on utility costs. The Army representative said that the information sheet could be distributed to installation officials, service members, family members, or the general public in response to questions. The Air Force representative said the Air Force plans to distribute the information sheet along with the data collection guidance to all of its installation housing offices. The updated information sheet states that a nationwide percentage of the portion of the housing allowance for utilities does not exist, but provides a range for expected monthly utility costs ($120 to about $600) and an average ($294) across all of the housing profiles and geographic areas, noting that nearly one-quarter of housing profiles are within 10 percent of the average. However, we believe that providing such a wide range of expected costs, as opposed to information more tailored to a specific geographic area and housing profile, does not provide installation officials with information that would allow them to help ensure the accuracy of the rates and does not provide service members with information that would help them make informed and fiscally responsible choices.

Definition of "Available" May Limit the Number of Properties Submitted in the Rate-Setting Process

Officials at four of the five installations we interviewed said that, in areas with low vacancy rates, it can be difficult to find rental properties for some housing profiles that are adequate and meet the definition of currently available housing used in the data-gathering process. These officials noted that rental properties that meet the definition of available in such markets tend to be inadequate or undesirable for a variety of reasons, including high rental costs, poor physical condition of the property, or located in a high-crime area and, therefore, are not representative of housing costs in the area. The data collection guidance provided to military installations

defines "available" properties to include properties that are currently on the rental market or have been on the market within 4 to 6 weeks prior to data submission.[20] The law governing the housing allowance program requires that rates be based on the costs of adequate housing for civilians with comparable incomes in the same area.[21] However, because the definition of "available" used in the data collection process limits data submission to only those properties that were available for rent within 4 to 6 weeks prior to data submission, the properties that some installations submit may not be as fully representative of current market costs for adequate housing for comparable civilians in the same area or properties that are representative of such costs may be excluded, increasing the possibility of inaccurate rates for the area. While some Defense Travel Management Office and military service housing allowance officials questioned whether revising the definition of "available" would lead to additional properties submitted during the data collection process, officials involved in the data collection process at four out of the five installations we interviewed and one of the military services indicated that extending the definition of available—up to 90 days, for example—would allow installations to submit cost data on additional rental properties, which could improve the accuracy of the housing allowance rates. For example, housing officials at Fort Drum, New York, told us that low vacancy rates in the area make it difficult to collect enough housing cost data on properties available only within a 4- to 6-week window. As a result, they questioned the accuracy of the data they submitted stating that if they were allowed to include housing cost data spanning a longer availability timeframe, they would have more assurance that the data they submitted would result in a more accurate cost estimate.

We recognize that revising the definition of "available" for data collection has some potential drawbacks; however, it is unclear to us whether these drawbacks would outweigh the potential benefits of improved accuracy of the rates from the submission of additional adequate properties. If DOD expanded the definition of "available" used in the data collection process then rental cost data might not be as current. Using the current definition, rental rates for properties available 6 weeks prior to the first data submission are more than 9 months old when the housing allowance rates

[20]Installation officials can submit data from large apartment or townhouse rental complexes that may not have a unit currently available since managers know what they would charge if a unit were available.

[21]37 U.S.C. § 403(b)(2).

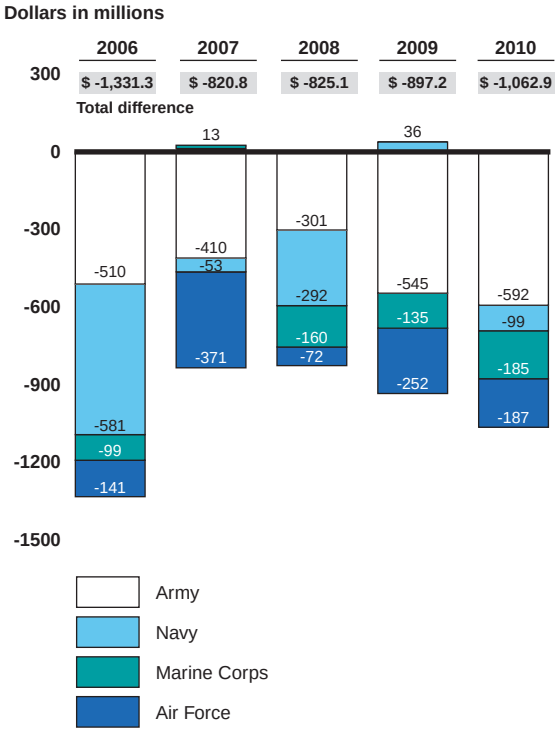
become effective. Revising the definition of "available" to 90 days would mean that rental rates for the earliest properties would be nearly a year old when rates became effective. However, the extent to which rental costs would significantly change in an additional 6 weeks is unclear. Additionally, Defense Travel Management Office officials and a representative of the data collection contractor noted that as rental rates get older, it becomes increasingly difficult to verify the rental rates with landlords for properties available more than 6 weeks prior to data submission. If the contractor cannot verify the rental rates, then the property cannot be included in the data used to set the housing allowance rates, which could lessen the benefit gained from submitting additional properties.

DOD Has Consistently Underestimated Costs of Housing Allowances in Its Budget Estimates

Since fiscal year 2006, DOD has consistently underestimated the total costs of paying the housing allowance to service members by $820 million to $1.3 billion each year—or about 6 to 11 percent of the amount estimated—meaning that DOD has spent more on the housing allowance than estimated. Figure 4 shows the difference between the amount that DOD estimated in its budget submission it would cost to pay the housing allowance and the actual amount DOD obligated for the housing allowance for fiscal years 2006 through 2010.[22] A difference of $0 would signify that DOD estimated the exact amount of funding it needed to pay housing allowances. Positive amounts signify that DOD's estimates were higher than the actual amount needed to pay housing allowances. Negative amounts signify that DOD's estimates were lower than the actual amount needed to pay housing allowances.

[22]The Coast Guard's budget justification documentation does not provide enough data to perform a similar analysis. However, based on data provided by Coast Guard budget officials, the Coast Guard's cost estimates have been within 5 percent of its obligations since 2006, with estimates slightly exceeding obligations from 2006 through 2007 and slightly below obligations from 2008 through 2010. The Coast Guard spent between about $530 million and $710 million each fiscal year from 2006 through 2010.

Figure 4: Difference between Amount Estimated and Obligated for Housing Allowances, Fiscal Years 2006 through 2010



Source: GAO analysis of DOD data.

Note: We could not compare DOD's estimates to its actual obligations for the housing allowance prior to 2006, as the supplemental budget requests prior to 2006 did not provide sufficient detail for us to determine the amount estimated for the housing allowance and neither the Office of the Under Secretary of Defense (Comptroller) or the military services could provide this information.

The military services generally use a four-step process to develop housing allowance cost estimates for budgeting purposes. First, using current year data, the services calculate the percentage of service members who received the housing allowance for each pay grade and dependency status, referred to as "participation rates." Second, the services apply the participation rates to the projected force structure to determine the number of people that will receive the housing allowance at each pay grade for the budgeted year, which is usually 2 years in the future. Third, the Office of the Under Secretary of Defense (Comptroller) provides the military services with an "inflation factor" to determine the housing allowance rates for each pay grade for budget purposes. Fourth, the services multiply the number of service members projected in a pay grade by the projected housing allowance rate to determine the estimated cost of

the housing allowance. While the services have processes in place to develop housing allowance cost estimates, budget officials in the Office of the Under Secretary of Defense (Comptroller) and the military services, as well as our analysis, indicated that the services have consistently underestimated the total cost of the housing allowance in part because the services' processes do not allow them to accurately estimate the number of service members who will receive the housing allowance.

A number of factors have affected the services' ability to accurately estimate the cost of the housing allowance. A key underlying factor is the timing of developing the budget estimates. The military services begin their process to develop budget estimates about 18 months before the housing allowance rates for the calendar year take effect, and the President submits the budget request to Congress almost a year before the new housing allowance rates take effect and about 2 months before DOD begins collecting the data for the rates, leading to challenges in accurately estimating the number of service members and housing allowance rate for each pay grade. Other key factors that have influenced the services' ability to accurately estimate the cost of the housing allowance include:

- **Changes in planned force structure.** In recent years, the military services have made changes in their planned force structure between the time that the service developed the estimate and when the allowances were paid to service members. For example, the Marine Corps reached its end strength goals for Grow the Force 2 years ahead of budget estimates, leading to more Marines than estimated actually receiving the housing allowance.
- **Increased use of mobilized reserve personnel.** Budget officials said that an increase in the number of mobilized reserve personnel has made it difficult to accurately estimate the number of personnel that will receive the housing allowance. The Tenth Quadrennial Review of Military Compensation report also identified this as a challenge to accurately estimating housing allowance costs, noting that the number of reservists serving on active duty since 2001 and the higher proportion of reservists with dependents compared with the active duty force makes it difficult to estimate the number of service members who will be eligible to receive a housing allowance.[23] That report recommended that DOD continue to improve its population estimating procedures to ensure that the housing allowance budget is as accurate as possible.

[23]DOD, *Report of the Tenth Quadrennial Review of Military Compensation* (Washington, D.C.: February 2008).

- **Changes to the housing allowance rates.** DOD does not set its housing allowance rates until December of each year, about 10 months after the President's budget is submitted to Congress and more than 2 months after the new fiscal year begins. DOD budget officials said that the rate estimates have been a factor in underestimating the housing allowance costs to a lesser degree than other factors. Based on our analysis, as well as the Tenth Quadrennial Review of Military Compensation, errors in estimating the numbers of service members that actually received the housing allowance were generally larger than errors in estimating the actual housing allowance rates, although errors in estimating the housing allowance rates did affect the accuracy of the total cost estimates.
- **Changes in housing policies.** Budget officials noted that changes in housing policies that allow service members to receive the housing allowance who previously were not eligible for the allowance, changes in the number of privatized housing units, or other changes to housing or housing allowance policies affect the accuracy of the services' estimates for the number of personnel and total cost of the housing allowance.

The military services have taken some actions that they said should help improve the accuracy of the housing allowance cost estimates. For example, the Army is developing a methodology to account for rate protection for service members if the rates decrease after being stationed at an installation. Officials expect to start using the methodology with estimates developed later this year. Since rate protection allows service members to retain their higher housing allowance rate in areas where rates decrease, the ability to better account for rate protection could improve the accuracy of housing allowance cost estimates. Additionally, the Marine Corps recently developed tools that allow them to gather dependency rates monthly. DOD budget officials provided suggestions for further improving estimates, such as coordinating with the service budget office before implementing housing policies that lead to increases in the number of service members who receive the housing allowance.

We have previously reported that when full funding information is not included in the President's annual budget submission or provided during the congressional appropriations process, it understates the true cost of government to policymakers at the time decisions are made and steps can still be taken to control funding, which is even more important in a time of constrained resources.[24] While we recognize the difficulties in accurately

[24]GAO, *Supplemental Appropriations: Opportunities Exist to Increase Transparency and Provide Additional Controls*, GAO-08-314 (Washington, D.C.: Jan. 31, 2008).

estimating the costs of the housing allowance, consistently underestimating the amount needed to pay the housing allowance affects other DOD programs. The housing allowance is an entitlement for service members. As such, DOD must pay the allowance to service members at the specified rates and, therefore, has had to find another source of funding when underestimating the amount needed to pay the allowance. This can include shifting funds that Congress has appropriated for other purposes, including other budget activities within the military personnel appropriation or other defense appropriations, in accordance with applicable laws and policies, or requesting additional funding in a supplemental request. However, shifting funds from another program could disrupt the funding of the other program. Additionally, while an official from the Office of the Under Secretary of Defense (Comptroller) said that DOD's budget provides the best estimates available, as a result of consistently underestimating the amount needed to pay the housing allowance, DOD's budget does not provide decision makers in Congress and DOD with the full picture of housing allowance costs, limiting the ability of both Congress and DOD to make more fully informed funding decisions.

Service Members Have Encountered Housing Challenges at Some Growth Installations and DOD Does Not Have a Formal Information-Sharing Process for Tools to Address Such Challenges

Some service members have encountered challenges in obtaining off-base housing near some installations that are increasing in size due to several major defense initiatives, such as BRAC, Grow the Force, Army Modularity, and Global Defense Posture and Realignment. DOD officials have used a number of tools to address challenges in obtaining off-base housing, but DOD does not have a formal process that allows installation officials to share information on these tools.

Housing Deficits Exist at Most DOD Growth Installations and Are Expected to Continue or Worsen

According to the military services' data, demand exceeds the supply of housing at 19 of the 26 growth installations, resulting in housing deficits.[25] Current housing deficit estimates range from about 1 percent of the total estimated demand at Fort Polk, Louisiana, to more than 20 percent of estimated demand at Cannon Air Force Base, New Mexico, according to service data. Economic conditions in recent years, among other factors, have made it difficult for developers to obtain funding for new construction projects in the communities, particularly for multifamily rental housing projects. This has contributed to the estimated housing deficits, according to installation housing and community officials we interviewed. In addition, these officials said that the high number of deployments in recent years, among other issues, has led to concerns among lenders about anticipated demand for newly constructed units, potentially making lenders more reluctant to provide loans for construction.

Housing and community officials from four of the five installations we reviewed—Fort Riley, Kansas; Cannon Air Force Base, New Mexico; Fort Drum, New York; and Fort Bliss, Texas—noted that service members are currently experiencing challenges in obtaining adequate and affordable

[25]DOD does not have current projections for three bases. The Air Force has not yet conducted analyses at Joint Base Andrews Naval Air Facility Washington, Maryland, or at Joint Base San Antonio, Texas. Additionally, the Navy conducted an analysis for the entire National Capital Region, rather than only for Naval Support Activity Bethesda.

housing in the communities surrounding the installation and expected that these challenges will continue or worsen in the future.

- Fort Riley has a current estimated deficit of about 700 family housing units (about 4 percent of family housing demand at the installation), based on Army data. Fort Riley officials stated that based on current plans, all but one of Fort Riley's brigades—about 80 percent to 90 percent of the population assigned to the installation—will be at the installation starting in October 2011. The return of most of the brigades, combined with longer periods of time at the duty station, will further increase the demand for housing on and around Fort Riley. Installation housing officials said that due to the limited amount of housing, service members have had to look further away from the installation to find adequate housing. Community officials noted that in recent years families have not relocated immediately with service members due to continuous deployment, which has led to difficulty in estimating the amount of family housing needed in the future.
- Cannon Air Force Base has a projected deficit of about 530 family housing units (about 20 percent of projected demand at the installation), based on Air Force data. In addition to the planned population increase at the installation, installation and community officials expect additional demand for housing in the area from the labor force expected to construct projects on the installation in support of the planned growth and a large energy project in the community. Installation officials said that occupancy rates for rental housing in the community have exceeded 99 percent in 2010 and 2011. Due to the limited availability of housing in the community, installation officials said there is a high demand for even inadequate family housing units on base, which are expected to be privatized in 2012. Additionally, some service members are purchasing homes in the area and others are paying more than the housing allowance for rent or renting in less desirable areas.
- Fort Drum has a current estimated deficit of about 1,700 family housing units (nearly 20 percent of family housing demand at the installation), based on Army data. Fort Drum officials stated that the lack of available housing in the community surrounding the installation, among other issues, has led an increasing number of service members to relocate to the installation without their families. By relocating to the installation unaccompanied, these service members can find smaller housing units than they would need for their family or share housing with another service member. Alternatively, depending on the availability of housing, some service members that relocate with their families obtain housing 30 to 40 miles away from the installation. Installation and community officials stated they expect housing availability to be further limited starting in 2012 when all but about 1,000 of Fort Drum's deployed soldiers are expected to be at the installation for the first time since their recent growth occurred.

Having most of the units return is expected to exacerbate current housing demand.

- Fort Bliss has a current estimated deficit of about 2,900 family housing units (about 15 percent of family housing demand at the installation), based on Army data. Due to the limited amount of housing near the installation that is affordable to junior enlisted personnel, Fort Bliss officials stated that junior enlisted personnel typically obtain housing on the outskirts of El Paso and experience long commutes to the installation. Officials noted that growth in the civilian population of El Paso due to families relocating there from Mexico has further limited the supply of housing available in the community for service members, and as more soldiers return from deployment over the next year, the community's housing supply will be further strained.
- Camp Lejeune and Marine Corp Air Station New River, North Carolina, have an estimated deficit of nearly 3,500 family housing units (nearly 20 percent of family housing demand at the installation), according to Marine Corps data. Despite the estimated shortfalls, installation housing officials said that service members have not encountered challenges in obtaining housing in the community, in part due to the number of mobile homes in the area. While DOD considers mobile homes as inadequate housing and does not include these units in its housing market analyses, some service members have chosen to live in these homes, which helped mitigate the projected housing deficit.

DOD Uses Several Tools to Address Housing Challenges

Service members are encountering challenges obtaining adequate housing at some installations due to the limited supply of housing in the area, but DOD's policy is to rely on the private sector as the primary source of housing for personnel normally eligible to draw a housing allowance and DOD is limited in its ability to increase the supply of housing in the community. However, installation housing officials we interviewed use or have plans to use several tools to help service members and their families obtain housing either on base or in the community, many of which could be replicated and used in other areas. Selected tools include:

- **Housing privatization:** Since 1996, the military services have been obtaining private sector financing and management to repair, renovate, construct, and operate military family housing on the installations—also

known as housing privatization.[26] In a typical privatized military housing project, a military department leases land to a developer for a term of 50 years. The developer is responsible for constructing new homes or renovating existing homes and leasing them, giving preference to military service members and their families. Service members who choose to live in the privatized housing then use their housing allowance to pay rent. Housing officials at each of the installations we interviewed are developing and implementing plans to negotiate with privatization partners to increase the supply of adequate housing on base. For example, Fort Bliss officials stated that their privatization partner has agreed to build an additional 800 to 1,000 privatized homes on the installation to help address the housing deficit. An installation official expected that the homes would not be completed until 2012, at the earliest. Additionally, the Army and Navy have privatized housing for unaccompanied senior enlisted personnel and officers at five installations: Fort Irwin, California; Naval Station San Diego, California; Fort Stewart, Georgia; Fort Drum, New York; and Fort Bragg, North Carolina. The Navy also privatized unaccompanied housing for junior enlisted personnel at Naval Station San Diego, California, and Naval Station Norfolk, Virginia. The Army and Navy selected these sites due to projected deficits in housing for unaccompanied personnel.

- **Domestic leasing program:** The domestic leasing program provides temporary housing for military families pending availability of permanent housing through DOD payment of rent and other housing costs of privately owned housing units that are assigned to military families as government quarters. For example, Army officials stated they are using the program as a short term bridging strategy for housing service members and their families until local communities respond to the increasing housing demand near installations. The program is currently in use at two growth installations—Fort Drum and Fort Bliss.
- **Military Family Housing Leasing Program** (commonly referred to as the Section 801 housing program): Starting in 1984, a number of DOD installations contracted with developers to build new rental housing on or near military installations through the Section 801 housing program—a forerunner to the current Military Housing Privatization Initiative.[27] DOD

[26]Congress enacted the Military Housing Privatization Initiative in 1996, which provided DOD with a variety of authorities that may be used to obtain private sector financing and management to repair, renovate, construct, and operate military family housing. National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2841 (1996), codified as amended at 10 U.S.C §§ 2871-2885.

[27]Section 801 Housing was authorized by the Military Construction Authorization Act, 1984; Pub. L. No. 98-115, § 801 (1983).

used the Section 801 Housing program as a means for improving and expanding military family housing through private developers' investment. The leases at four of the installations within our scope have expired or will expire within the next 2 years and will not be renewed, according to housing officials at these installations. While the existing contracts at Cannon Air Force Base will expire in 2012 and 2013, installation housing officials stated that the installation is attempting to develop a "bridge lease" that will allow service members to continue renting the units with some revisions to the current lease agreement to help meet the increased housing demand. In addition, as we previously reported, Fort Hood, Texas, extended its Section 801 housing lease to 2029 and renegotiated the lease terms to retain priority use of the units for military personnel and DOD civilians.[28]

- **Low-Income Housing Credit:** The Housing and Economic Recovery Act,[29] which Congress enacted in 2008, contained a provision that altered the way the Basic Allowance for Housing was treated for the purposes of determining eligibility under the Low Income Housing Tax Credit Program.[30] The provision, which is effective through January 2012, applies only to certain military installations, but according to installation officials it can, in some cases, effectively expand the supply of available housing. Nine military installations qualified for the program, including three installations expecting significant growth—Fort Riley, Fort Bliss, and Fort Hood. Fort Riley and Fort Bliss officials said that the provision can allow more service members to qualify for low-income housing. One growth installation—Fort Drum—did not qualify for the program, but Fort Drum officials estimated that if the installation had qualified an additional 200 tax credit housing units would likely have been constructed near the installation.
- **Housing requirements and market analyses:** The military services routinely conduct housing requirements and market analyses to determine projected housing surpluses or deficits based on the number of personnel expected to be stationed at the installation in a given year and to determine housing requirements and the community's ability to meet those requirements. Based on the results of these analyses, the services can

[28]GAO, *Military Housing: Installations Need to Share Information on Their Section 801 On-Base Housing Contracts*, GAO-11-60 (Washington, D.C: Oct. 28, 2010).

[29]The Housing and Economic Recovery Act, 2008, Pub. L. No. 110-289, §3005.

[30]The Low Income Housing Tax Credit program was established to spur the production of rental housing for lower income households at rents they can afford. Tax credit housing units are financed in part by investors who receive federal income tax credits. In exchange, the housing units are restricted to households with incomes below certain limits for a fixed number of years.

determine whether to use housing tools such as housing privatization, government-owned housing, or leasing at an installation. Officials at all five of the installations we interviewed indicated they use the housing analyses as a tool to determine current and projected housing deficits and how to address the deficits. However, officials we interviewed at a few installations raised concerns about the process to develop the analyses and the accuracy of the results, noting issues with the data used to establish the estimates and the lack of input from housing officials at the installation.

- **Extension of lodging allowance:** The Temporary Lodging Expense Allowance is designed to partially offset expenses when a service member occupies temporary quarters in the continental United States while relocating from one installation to another. The Army has extended the use of this allowance at two growth installations—Fort Drum and Fort Bliss—from 10 days to up to 60 days. While Fort Bliss officials stated that service members have generally been able to find housing within 10 days, the installation requested the extension in anticipation of future growth at the installation when officials expect that it will take longer for service members to find housing.
- **Installation-community collaboration:** Among other responsibilities, DOD's Office of Economic Adjustment assists growth communities affected by DOD actions, such as BRAC, that have expressed a need for planning assistance. The Office of Economic Adjustment has encouraged the communities near growth installations to establish "growth management organizations" that are designed to work on issues associated with community growth and typically include high-level installation officials. The Office of Economic Adjustment has provided grants to assist some of the organizations to plan to accommodate the expected population increases and undertake studies to identify gaps in local infrastructure, such as housing. In addition, the growth management organizations provide a forum for community and installation officials to communicate about challenges, including housing, and develop plans to mitigate the challenges. For example, community officials from the Fort Drum Regional Liaison Organization said the organization has plans to host an event this year to bring together installation officials, developers, financers, and state and local officials to encourage new housing development around the installation.
- **Housing allowance waiver:** The Navy and Coast Guard have identified "critical housing areas" where there is a short supply of housing on base and in the community. In such areas, a service member may choose to leave their dependents at their previous duty location and relocate to the new duty location unaccompanied while continuing to receive the housing allowance at the rate for the prior location. By relocating to an area unaccompanied, the service member may have more housing choices,

such as living in a smaller unit than the family needs or sharing housing with another member. However, the service member has to pay for housing for himself or herself in one location and his or her family in another location, which could be costly. The Navy designated six critical housing areas in 2009, but did not designate any critical housing areas in 2010. The Coast Guard designated 23 critical housing areas in 2010. While the Army and Air Force have not identified critical housing areas, officials told us that service secretaries can authorize the housing allowance to be paid based on a dependent's location or previous duty station on an exception basis if circumstances require dependents to reside separately from the service member or other circumstances deemed acceptable by the secretary.

- **Rental Partnership Program:** The Rental Partnership Program helps service members obtain housing at a reduced cost. Installations negotiate deals with local housing management companies to enter into written agreements to make adequate housing available to service members. Installations develop their own unique aspects of the program. For example, Camp Lejeune uses the program to reduce move-in costs for junior enlisted service members trying to obtain housing in the community.
- **Automated Housing Referral Network:** The Automated Housing Referral Network is an Internet-based rental database used by service members to find housing. The database contains information on housing on base and in the community, as well as temporary lodging, shared rentals, and housing units for sale by owner. The network is widely used across the services, including the Coast Guard, according to officials in DOD's Directorate of Housing and Competitive Sourcing.

DOD Does Not Have a Formal Process for Sharing Information on Tools to Address Housing Challenges

Installation housing officials we interviewed generally share information on tools they use or plan to use to address housing-related challenges on a regular, but ad hoc basis. For example, Fort Drum, Fort Riley, and Fort Bliss officials stated that most of their information sharing is done through informal email communication with other Army housing officials. In addition, housing officials we interviewed at each of the five installations said that they communicate informally with installations from other services at the Professional Housing Management Association's annual conference, where officials from all of the military services discuss, among other topics, housing tools and challenges at their installations. Installation housing officials we interviewed generally stated that having a repository with information about tools, their use, and their impact at addressing housing challenges would be beneficial as the installations continue to plan for current and future growth.

According to the *Standards for Internal Control in the Federal Government*, information should be communicated to the individuals within an organization that need it to carry out their responsibilities.[31] Among other responsibilities, the Deputy Under Secretary of Defense (Installations and Environment), which is part of the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), is responsible for providing guidance and general procedures about housing, including community housing and DOD housing, and communicating and coordinating with the military departments, including through regular meetings about housing policy and other housing issues. DOD's Housing Management Manual states that, subject to the authority and direction of their respective DOD components, installation commanders are responsible for ensuring that service members have access to suitable housing.[32] However, installation housing officials do not readily have access to information about certain tools and their use by other installations and services that could help service members obtain suitable housing because DOD does not have a formalized information-sharing process to store and share this information. Without such a process, DOD cannot ensure that installations that are currently facing housing challenges or may encounter such challenges in the future have access to the necessary information on what tools have worked elsewhere to best position installations to mitigate or solve the challenges. While information shared through informal networks is useful to those who receive the information, there is no assurance that information shared and learned through these communications can be of use to others if the information is not stored and available for others to readily access.

We identified instances where installation housing officials were generally unaware of some tools available to address housing challenges. For example, of the five growth installations we spoke to, three installations were unaware of the authority DOD previously had to prescribe temporary increases in housing allowance rates in areas that are experiencing a sudden increase in the number of service members assigned to the installation. Officials at one installation in an area with low vacancy rates noted that the installation did not become aware of the authority until after it expired and noted that an increase in the housing allowance rates would have increased service members' ability to obtain housing. In

[31]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[32]DOD 4165.63-M, Housing Management Manual (October 28, 2010).

addition, officials we interviewed at another installation were not aware of the Rental Partnership program. We also found an instance where officials at one installation said it would be helpful to have information from other installations implementing the domestic leasing program to get the program started at their installation.

Conclusions

DOD spends billions of dollars each year to pay the housing allowance to over a million service members so that they can obtain housing for themselves and their families. DOD's housing allowance rate-setting process is generally viewed as effective and DOD has made improvements to the process over the past decade. Nevertheless, there are opportunities for DOD to further enhance its rate-setting process and improve the accuracy of the housing allowance rates. Accurate housing allowance rates are critical to meeting DOD's goals for the housing allowance program. Rates that are lower than the average housing costs in the community limit service members' ability to obtain adequate housing in the community, while rates that are higher than the average housing costs risk DOD spending more money than needed for the allowance. Providing additional information to installation officials about the costs that comprise the housing allowance rate—rent, utilities, and renter's insurance—would enable those officials to help review the accuracy of the local market-based rates, given their expertise in the local housing area. Similarly, if DOD provided such information to service members, it could help them to make more informed decisions about their housing choices. Additionally, analyzing the benefits and drawbacks of revising the definition of "available" rental properties for data collection—and revising the definition, as needed—could enable DOD to increase the sample of adequate and appropriate properties used to determine the median rental cost in an area, potentially improving the accuracy of the housing allowance rates. Furthermore, until DOD develops a process that results in more accurate estimates of the total costs of the housing allowance, DOD may continue to shift funds from other programs, potentially affecting the success of the other programs and limiting the ability of key decision makers in Congress and DOD to make more informed funding decisions, which is particularly critical in the current fiscal environment.

Population increases and other factors have increased the demand for housing on and near installations, leading some service members to encounter challenges obtaining off-base housing near some installations. DOD officials expect the problem to worsen in the near future as some initiatives, such as BRAC, are completed and as service members return home from overseas deployments. Installations have used a number of

tools to help service members find housing, either in the community or on the installation. However, until DOD institutes a more widespread communications process that allows sharing of these tools across military installations and services, DOD cannot ensure that all installation officials will have access to valuable information on addressing housing challenges due to growth or other causes—both now and in the future—that could help improve the quality of life for service members and their families.

Recommendations for Executive Action

We recommend that the Secretary of Defense take the following four actions:

- To enhance the transparency of the housing allowance rates, direct the Director of the Defense Travel Management Office to revise policies to provide information on the three costs that comprise the housing allowance rate (rent, utilities, and renter's insurance) by geographic area and housing profile to installation housing officials to better ensure local-market-based accuracy and to service members to increase understanding of the rate when selecting housing.
- To enhance the accuracy of the housing allowance rates, direct the Director of the Defense Travel Management Office to more fully assess the benefits and drawbacks of revising the definition of "available" rental properties used for data collection purposes, either for all military housing areas or only those military housing areas that meet a certain low vacancy threshold.
- To promote more accurate budgeting by DOD, direct the Under Secretary of Defense (Comptroller) and the military services to more fully identify the causes of inaccurate cost estimates for the Basic Allowance for Housing program and develop and implement procedures to improve these estimates. At a minimum, these procedures should include processes to more accurately estimate the number of service members who will receive the allowance.
- To ensure that current or future growth installations that experience housing challenges have access to information on tools to address these challenges, direct the Under Secretary of Defense (Acquisition, Technology and Logistics) and the Office of the Deputy Assistant Secretary of Defense (Installations and Environment) to develop a communications process so that installations can more routinely share best practices and their use of tools and mechanisms to address housing challenges.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD generally concurred with all four of our recommendations. DOD's response to our recommendations is printed in its entirety in appendix III. DOD also provided technical comments, which we incorporated, as appropriate. The Department of Homeland Security reviewed a draft of this report and did not have comments.

DOD partially concurred with our recommendation to provide service members with information on the three elements that comprise the allowance (rent, utilities, and renter's insurance). In its response, DOD said that it will provide the cost elements as a percentage range of total costs across all profiles by 2012. We believe that this meets the intent of our recommendation.

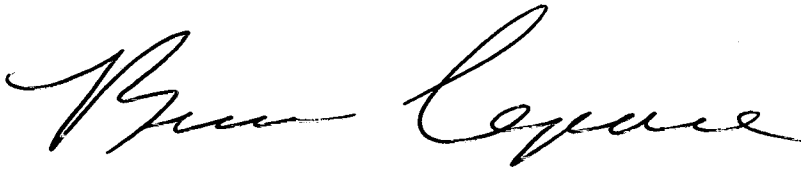
DOD concurred with our second recommendation to assess the benefits and drawbacks of revising the definition of "available" rental properties used for data collection purposes. DOD said that it has already done so and plans to expand the definition of available properties to include those properties that will be available at a future date.

DOD concurred with our third recommendation to identify the cause of inaccurate cost estimates of the allowance program and improve procedures to address this problem. DOD plans to establish a working group, led by the Office of the Under Secretary of Defense (Comptroller), to better understand how the services budget for the housing allowance and document and share best practices for estimating the amount needed to pay the allowance.

DOD concurred with our fourth recommendation to develop a communications process to share best practices among the installations and plans to use the Office of the Secretary of Defense's Housing Policy Panel and other resources to share information on tools to address housing challenges.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense (Acquisition, Technology and Logistics); the Secretaries of the Army, Navy, and Air Force; the Commandant of the Marine Corps; the Secretary of Homeland Security; and the Commandant of the Coast Guard. This report will also be available at no charge on our Web site at http://www.gao.gov. Should you or your staff have any questions

concerning this report, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors are listed in appendix IV.



Brian J. Lepore
Director, Defense Capabilities and Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Howard P. McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable C.W. "Bill" Young
Chairman
The Honorable Norman D. Dicks
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To determine whether the Department of Defense (DOD) could enhance its housing allowance rate-setting process, we reviewed reports about DOD's process, including DOD's 2010 report to Congress,[1] and laws and guidance governing the program. Additionally, we spoke with officials responsible for overseeing the rate-setting process in the Defense Travel Management Office; housing officials in the Directorate of Housing and Competitive Sourcing within the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics); a budget official in the Office of the Under Secretary of Defense (Comptroller); and military compensation and budget officials responsible for housing allowances from the Army, Navy, Marine Corps, and Air Force. We also met with representatives from the Coast Guard to discuss their role in the process for setting basic housing allowances. Furthermore, we contacted installation housing officials from Fort Riley, Kansas; Cannon Air Force Base, New Mexico; Fort Drum, New York; Camp Lejeune, North Carolina; and Fort Bliss, Texas, to discuss how they collect and submit housing cost data that feed into DOD's rate-setting process. Our rationale for selecting these installations is discussed below. Additionally, we spoke with a representative from DOD's contractor for the data collection efforts. We discussed the technical aspects of a draft of this report with a representative for the contractor.

To help ensure that we identified a wide range of potential enhancements to DOD's current rate-setting process, we also spoke with representatives from six other organizations: the Center for Naval Analyses, the Lewin Group, the RAND Corporation, the Fleet Reserve Association, the Military Officers Association of America, and the National Military Family Association. We selected these organizations because representatives have knowledge about military compensation generally or the Basic Allowance for Housing program specifically, as shown in published reports or through testifying before Congress and the three associations represent interests of military service members and their families. In addition to publishing other work on military compensation, the Lewin Group performed the research on which DOD based its 2010 report to Congress on housing standards and the allowance rate-setting process. We considered a number of potential enhancements to DOD's current rate-setting process and performed further analyses to determine the benefits and drawbacks of each, including potential financial savings or costs.

[1]DOD, *Report on Housing Standards and Housing Surveys Used to Determine Basic Allowance for Housing* (Washington, D.C.: June 18, 2010).

Through the additional analyses of each of the enhancements, we determined whether the alternative was viable and could enhance DOD's rate-setting process without significantly increasing program costs. For example, with regard to the enhancement of providing more information to service members about the three costs that comprise the housing allowance rate, we obtained and analyzed data from the Defense Travel Management Office on the three costs that comprise the rate for the six housing profiles in each of the 364 military housing areas. We assessed the reliability of the data by performing electronic testing for obvious errors in the accuracy and completeness of the data and reviewing documentation on how the data are collected and determined that the data were sufficiently reliable for our purposes. Additionally, we discussed the enhancement with officials from the Defense Travel Management Office, the service Basic Allowance for Housing representatives, and five selected installations. Similarly, with regard to DOD's process to budget for the housing allowance, we analyzed budget justification data for the Army, Navy, Marine Corps, and Air Force for personnel receiving the housing allowance at the "with" and "without" dependents rates by comparing the amount DOD estimated to the amount obligated. We reviewed the annual budget, supplemental requests, and funding for housing allowances requested in support of Overseas Contingency Operations. We could not compare DOD's estimates to its actual obligations for the housing allowance prior to 2006, as the supplemental budget requests prior to 2006 did not provide sufficient detail for us to determine the amount estimated for the housing allowance and neither the Office of the Under Secretary of Defense (Comptroller) or the military services could provide this information. The Coast Guard's budget justification documents to Congress are not in enough detail compared to similar budget justification documents to Congress from the other military services so we could not perform a thorough analysis of the Coast Guard's cost estimates; however, Coast Guard officials provided similar information that allowed us to compare the Coast Guard's overall estimates to obligations.

To determine whether service members relocating to installations that DOD projects to experience significant growth have encountered challenges in obtaining off-base housing and the extent to which DOD is using and sharing information on tools to address these challenges, we reviewed and analyzed applicable documentation and interviewed knowledgeable officials. Specifically, we analyzed data from the Housing Requirement and Market Analyses for the 26 growth installations to determine DOD's housing deficit projections at these installations. While we recognize that there are some shortcomings of the data, including concerns raised by installation housing officials about the process to

develop the analyses and the accuracy of the results, we used the data to provide context on projected housing deficits and determined that the data were sufficiently reliable for this purpose. To better understand the tools available to address housing challenges, we reviewed the relevant legislation; DOD's Joint Federal Travel Regulations; service-level policies and other documentation on tools; and past GAO reports that discuss military housing privatization, the Domestic Leasing Program, and Section 801 housing.[2] Additionally, we interviewed housing officials in the Directorate of Housing and Competitive Sourcing within the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics); the Army, Navy, Marine Corps, Air Force, and Coast Guard headquarters; and five domestic military installations—Fort Riley, Kansas; Cannon Air Force Base, New Mexico; Fort Drum, New York; Camp Lejeune, North Carolina; and Fort Bliss, Texas—to obtain information on whether service members have encountered challenges in obtaining housing, tools the installations are using to address these challenges, and processes for sharing information on the tools. Our rationale for selecting these installations is discussed below. To better understand the housing issues in the communities, we interviewed officials who work with growth communities in DOD's Office of Economic Adjustment and contacted community organization representatives in each of the communities near the 26 growth installations identified by the Office of Economic Adjustment.

To obtain installation officials' perspectives on both DOD's rate-setting process and housing challenges and tools, we interviewed housing officials from a nonprobability sample of five domestic military installations: Fort Riley, Cannon Air Force Base, Fort Drum, Camp Lejeune, and Fort Bliss. We selected installations that met criteria that address both of these issues. Specifically, we began our selection with DOD's list of 26 significantly impacted growth installations. We narrowed the list to the five we selected to obtain a sample of installations with a range of the following characteristics: communities that had identified housing as a challenge in the growth profiles published by the Office of Economic Adjustment, installations with different geographic and

[2]GAO, *Military Housing: Management Issues Require Attention as the Privatization Program Matures*, GAO-06-438 (Washington, D.C.: April 28, 2006); *Military Housing Privatization: DOD Faces Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets*, GAO-09-352 (Washington, D.C.: May 15, 2009); and *Military Housing: Installations Need to Share Information on Their Section 801 On-Base Housing Contracts*, GAO-11-60 (Washington, D.C: Oct. 28, 2010).

population concentrations, installations from different military services, and installations with officials that the Defense Travel Management Office identified as particularly knowledgeable about the housing allowance rate-setting process. Not all installations met all of the criteria. Our selection of three Army installations reflects that the majority of significantly impacted growth installations are Army installations. Because we selected a nonprobability sample of installations, the information obtained from interviews with officials from these five installations cannot be generalized to other installations.

We conducted this performance audit from August 2010 through May 2011, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Summary of DOD's Process to Set Housing Allowance Rates

By law, housing allowance rates are to be based on the costs of adequate housing for civilians with comparable income levels in the same areas.[1] To do this, the Department of Defense (DOD) identified six housing profiles, ranging from a one-bedroom apartment to a four-bedroom single-family detached house and identified a pay grade for each profile—also referred to as an anchor—that matches the type of housing normally occupied by civilians with comparable incomes. Using the housing profiles and the local costs of each profile in the geographic areas of the country, DOD establishes the allowance rates each year.

DOD established separate housing profiles for members with and without dependents and established a method to ensure that allowance rates would increase with each pay grade.[2] For example, the one-bedroom apartment profile corresponds to an E-4 without dependents and the four bedroom single family home profile corresponds to an O-5 with dependents. DOD sets the housing allowance rates for pay grades that are not anchors based on the last anchor plus a percentage of the difference between the last anchor and the next anchor. For example, an E-7 with dependents receives the same rate as an E-6—the anchor for a three-bedroom townhouse—plus 36 percent of the difference between the anchor for a three-bedroom townhouse and three-bedroom single-family detached house. Table 1 and table 2 show the housing profiles for each pay grade and the method DOD uses to calculate the allowance rates for service members with dependents and without dependents, respectively.

Table 1: 2011 National Average Monthly Housing Allowance for Service Members with Dependents, by Pay Grade

Pay grade	Housing profile	Allowance rate calculation[a]	2011 national average monthly housing allowance
E-1	2-bedroom apartment	Midpoint of 2-bedroom apartment and 2-bedroom townhouse	$1,124
E-2	2-bedroom apartment		$1,124
E-3	2-bedroom apartment		$1,124
E-4	2-bedroom apartment		$1,124
E-5	2-bedroom townhouse	Anchor	$1,221

[1]37 U.S.C. § 403(b)(2).

[2]Military pay grades range from E-1, the lowest enlisted rank, to O-10, the highest officer rank. Pay grades beginning with "E" denote enlisted personnel, those beginning with "W" denote warrant officers, and those beginning with "O" denote officers.

Pay grade	Housing profile	Allowance rate calculation[a]	2011 national average monthly housing allowance
O-1	2-bedroom townhouse	11%	$1,244
O-2	2-bedroom townhouse	98%	$1,423
E-6	3-bedroom townhouse	Anchor	$1,427
W-1	3-bedroom townhouse	1%	$1,431
E-7	3-bedroom townhouse	36%	$1,494
O-1E	3-bedroom townhouse	44%	$1,510
W-2	3-bedroom townhouse	52%	$1,525
E-8	3-bedroom townhouse	75%	$1,568
O-2E	3-bedroom townhouse	93%	$1,601
O-3	3-bedroom townhouse	98%	$1,611
W-3	3-bedroom single family house	Anchor	$1,615
E-9	3-bedroom single family house	16%	$1,679
W-4	3-bedroom single family house	22%	$1,704
O-3E	3-bedroom single family house	26%	$1,720
W-5	3-bedroom single family house	48%	$1,809
O-4	3-bedroom single family house	58%	$1,849
O-5	4-bedroom single family house	Anchor	$2,019
O-6	4-bedroom single family house	1%	$2,039
O-7	4-bedroom single family house	2%	$2,059
O-8	4-bedroom single family house	Same as O-7	$2,059
O-9	4-bedroom single family house	Same as O-7	$2,059
O-10	4-bedroom single family house	Same as O-7	$2,059

Source: DOD and GAO analysis of DOD data.

[a]Allowance rate is the anchor rate plus this percentage of the difference with the next highest anchor rate.

Table 2: 2011 National Average Monthly Housing Allowance for Service Members without Dependents, by Pay Grade

Pay grade	Housing profile	Allowance rate calculation[a]	2011 national average monthly housing allowance
E-1	1-bedroom apartment	Same as E-4	$865
E-2	1-bedroom apartment	Same as E-4	$865
E-3	1-bedroom apartment	Same as E-4	$865
E-4	1-bedroom apartment	Anchor	$865
E-5	1-bedroom apartment	67%	$978

Pay grade	Housing profile	Allowance rate calculation[a]	2011 national average monthly housing allowance
O-1	2-bedroom apartment	Anchor	$1,033
E-6	2-bedroom apartment	7%	$1,097
W-1	2-bedroom apartment	31%	$1,117
E-7	2-bedroom apartment	53%	$1,157
O-2	2-bedroom apartment	83%	$1,194
O-1E	2-bedroom townhouse	Anchor	$1,222
W-2	2-bedroom townhouse	19%	$1,257
E-8	2-bedroom townhouse	20%	$1,264
O-2E	2-bedroom townhouse	44%	$1,312
E-9	2-bedroom townhouse	51%	$1,333
W-3	2-bedroom townhouse	54%	$1,339
O-3	2-bedroom townhouse	64%	$1,357
O-3E	3-bedroom townhouse	Anchor	$1,429
W-4	3-bedroom townhouse	9%	$1,445
O-4	3-bedroom townhouse	40%	$1,504
W-5	3-bedroom townhouse	45%	$1,513
O-5	3-bedroom townhouse	63%	$1,574
O-6	3-bedroom single family house	Anchor	$1,630
O-7	3-bedroom single family house	2%	$1,660
O-8	3-bedroom single family house	Same as O-7	$1,660
O-9	3-bedroom single family house	Same as O-7	$1,660
O-10	3-bedroom single family house	Same as O-7	$1,660

Source: DOD and GAO analysis of DOD data.

[a]Allowance rate is the anchor rate plus this percentage of the difference with the next highest anchor rate.

DOD calculates nearly 20,000 separate allowance rates each year:

- for each of the 27 military pay grades, ranging from E-1 (junior enlisted) to O-10 (general or flag officer);
- for personnel with and without dependents (spouse, children, or other dependents); and
- in each of the 364 DOD-established military housing areas.[3]

[3]About 24,000 service members, or less than 2 percent of military personnel eligible to receive the housing allowance, are stationed at locations outside a military housing area, according to DOD. DOD determines housing costs for these locations by using data published annually by the Department of Housing and Urban Development, and bases allowance rates on those at housing areas with similar rental costs.

The housing allowance is intended to cover the average costs of rent, utilities, and renter's insurance in private sector housing. Rent, as the largest of these three expenses, is the focus of most data collection efforts during DOD's annual rate-setting process. DOD personnel in installation housing offices and DOD's housing allowance contractor collect rental information for the six housing profiles in spring and summer, when the rental market is most active and when most service members traditionally relocate to new installations. Starting in January of each year, the contractor provides training and guidance to installation officials who will be collecting rental data. Installation officials, who are generally familiar with local housing markets, then begin collecting rental information on the six housing profiles and send this information to the contractor in three submissions in May, June, and July. The units selected for inclusion in the sample must be both available, meaning they must be currently available to rent or were available on the market within 4 to 6 weeks prior to the data submission,[4] and adequate. While the data collection guidance does not define adequate, it does provide a list of examples of inadequate types of housing, including mobile homes, efficiency apartments, weekly or seasonal rentals, and housing that is in poor physical condition, extremely expensive, or located in high-crime areas. Although there are guidelines for housing that is inadequate, service members ultimately choose what type of housing and where they want to live. While a degree of subjectivity is involved in determining whether a property is adequate since the quality of housing varies across areas, the installation officials with whom we spoke said that they inspect housing units before they are included in the rental data submission to help ensure that they are suitable for military personnel. Installation officials also submit census tracts that are in high-crime or otherwise unsuitable areas so that units in these areas are not included in the rental data sample. All units included in the sample must also fall within the established military housing area.

Simultaneously, the contractor also collects rental data for the six housing profiles within the housing areas by using local newspaper classified advertisements, rental listings, and consultations with real estate professionals. DOD's goal is for installations to collect about 60 percent of rental data while the contractor collects about 40 percent, but this varies between installations and housing areas. The contractor establishes target sample sizes for each housing profile in each housing area. Sample sizes

[4]Installation officials can submit data from large apartment or townhouse rental complexes that may not have a unit currently available since managers know what they would charge if a unit were available.

can range from several hundred units per housing profile where there is a large inventory of available housing to as few as five where certain types of housing are not as readily available. Each of the services can request site visits each year, during which officials from the Defense Travel Management Office and the military service and a representative from the contractor discuss the rate-setting process with installation officials. Also, they view a sample of the available housing stock to better ensure that housing allowance rates are accurate for the area, educate installation officials on the process, and answer questions from installation officials.

Data collection on rental units stops in August to give the contractor adequate time to analyze the data and finalize calculations of the median monthly rent for each housing profile in each housing area. For quality assurance purposes, the contactor reviews submitted data and eliminates data errors, any duplicate units submitted, and extreme rent outliers. For example, installation officials and the contractor collected a total of nearly 60,000 data points in 2010, but about 12,800 were excluded as part of the quality control process. The contractor also calculates the average utility costs for each housing profile by analyzing data collected annually by the U.S. Census Bureau's American Community Survey. Utilities factored in the calculation include electricity, gas, oil, water, and sewage. The third cost element of the housing allowance is renter's insurance; the contractor calculates average renter's insurance premiums based on rates from leading insurance carriers.

In early September, the contractor sends the median rental costs and the average costs for utilities and renter's insurance to the Defense Travel Management Office, which calculates housing allowance rates for each pay grade in each of the housing areas, and for personnel with and without dependents. The Defense Travel Management Office also reviews the information and rate calculations and makes adjustments, as appropriate. For example, if rates are 10 percent above or below the previous year's rates, the data sample is reviewed with more scrutiny to determine if it is representative of the rental market. Housing allowance representatives in the compensation offices of each of the services then review the rate calculations through October and November. These representatives have an opportunity to discuss any concerns with the Defense Travel Management Office. Following service review, the rates are reviewed and approved by the Office of the Deputy Under Secretary of Defense (Military Personnel Policy). The approved rates are provided to the Defense Finance and Accounting Service and DOD begins paying the new housing allowance rates on January 1. Once approved, the Defense Travel

Management Office posts the housing allowance rates on its Web site and the rates are available for service members, as well as the public, to view.

Appendix III: Comments from the Department of Defense

PERSONNEL AND READINESS

UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

Mr. Brian J. Lepore
Director, Defense Capabilities and Management
U. S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

MAY 2 2011

Dear Mr. Lepore:

This letter is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report GAO-11-462, "MILITARY HOUSING: Enhancements Needed to Housing Allowance Process and Information Sharing Among Services" dated May 2011 (GAO Review Code 351532). Detailed comments on the report recommendations are enclosed.

The Department partially concurs with the first of the four GAO recommendations put forth in the draft report and concurs with the remaining three. Although DoD agrees with GAO's intent, and will share more information on the cost elements that make up the Basic Allowance for Housing (BAH), we must take care how the information is provided so that it is not misleading to installation officials and Service members. Accordingly, we will meet GAO's intent by providing housing cost element information as a percentage range of total housing costs across all profiles. DoD has evaluated the window of availability for rental properties and will make changes to data collection guidance to expand this window. The Services are working to improve their BAH budget estimations, and the Office of the Under Secretary of Defense (Comptroller) will lead a working group to foster sharing of methodologies amongst the Services. We will use available tools to enhance communication of housing best practices among installations.

The Department appreciates the opportunity to comment. For questions concerning this report, please contact Cheryl Anne Woehr, Defense Travel Management Office, at (703) 696-7522 or cherylanne.woehr@dtmo.pentagon.mil.

Sincerely,

Clifford L. Stanley

Enclosure:
As stated

GAO DRAFT REPORT DATED MARCH 31, 2011
GAO-11-462 (GAO CODE 351532)

"MILITARY HOUSING: ENHANCEMENTS NEEDED TO HOUSING ALLOWANCE PROCESS AND INFORMATION SHARING AMONG SERVICES"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The Government Accountability Office (GAO) recommends that the Secretary of Defense direct the Director of the Defense Travel Management Office (DTMO) to revise policies to provide information on the three costs that comprise the housing allowance rate (rental, utilities, and renter's insurance) by geographic area and housing profile to installation housing officials to better ensure local market-based accuracy and to Service members to increase understanding of the rate when selecting housing. (See page 30/GAO Draft Report.)

DoD RESPONSE: Partially Concur. Basic Allowance for Housing (BAH) is a comprehensive allowance, specifically designed to cover local housing costs as a whole, not different allowances for individual cost elements. Housing allowances are set based on distinctive housing profiles for each pay grade, but Service members are always free to make housing choices that meet their individual needs. Expressing the allowance in terms of its specific cost elements will add a level of complexity that may be confusing to Service members and lead to misinterpretation. BAH rates are set based on median rent and average utility and insurance costs, so we expect many Service members to experience housing costs that exceed their BAH rate. However, members may view individual components as the maximum they can spend. Utility costs, specifically, vary greatly with individual usage. A member's actual expenses may be higher or lower based on choice of housing and where they live.

DoD will reconcile this position with the GAO recommendation by providing housing cost element information as a percentage range of total housing costs across all profiles. This additional information will assist Service members to make educated housing choices. Specific geographic regions will be established based on housing cost similarities. This cost breakout will be published with the 2012 BAH rates.

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Director of DTMO to more fully assess the benefits and drawbacks of revising the definition of "available" rental properties used for data collection purposes, either for all military housing areas or only those military housing areas that meet a certain low vacancy threshold. (See page 30/GAO Draft Report.)

DoD RESPONSE: Concur. DTMO has reviewed the current definition of "available." Under this definition, properties can be used that are available at the time of data collection, or that were available in the preceding 4-6 weeks. This allows a window of 16 weeks (4 months) for a property to be available, which we believe is sufficient to obtain a representative sample of housing costs in the local area. In our experience, expanding the window of time with an earlier starting date does not result in a substantial number of additional properties.

To expand the available window forward, and to address the underlying concern from housing offices that many of the most desirable properties are never vacant, DTMO will direct the data

collection contractor to accept properties advertised for rent even if they will not be available for occupancy until a future date. DTMO will also direct the data collection contractor to include this expanded definition of available in the data collection process guide for housing offices and in training workshops.

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) and the military Services to more fully identify the causes of inaccurate cost estimates for the BAH program and develop and implement procedures to improve these estimates. At a minimum, these procedures should include processes to more accurately estimate the number of Service members who will receive the allowance. (See page 30/GAO Draft Report.)

DoD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) will lead a working group of Service representatives to better understand how the Services develop BAH budget estimates with the intent of documenting best estimating practices and sharing ideas amongst the Services.

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Acquisition, Technology and Logistics (AT&L)) and the Office of the Deputy Assistant Secretary of Defense (Installations and Environment) to develop a communications process so that installations can more routinely share best practices and their use of tools and mechanisms to address housing-related challenges. (See page 31/GAO Draft Report.)

DoD RESPONSE: Concur. While providing guidance on housing operations is part of the AT&L mission; communicating with and training members on available housing tools is a responsibility of the military Services. To satisfy the recommendation, we will use the OSD Housing Policy Panel to disseminate information on the available tools to the housing leaders of the Services. The Services may be able to use another available tool, the Professional Housing Management Association's annual Professional Development Seminar to further provide information to its housing management teams.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Laura Talbott, Assistant Director; Steven Banovac; Hilary Benedict; Joel Grossman; Brandon Jones; Ron La Due Lake; Charles Perdue; Richard Powelson; and Michael Willems made key contributions to this report.

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