



Highlights of [GAO-10-771](#), a report to congressional committees

## Why GAO Did This Study

The Department of Defense (DOD) operates nearly 70,000 lodging rooms—similar to hotel rooms—and spent nearly \$1 billion in 2009 to operate them. In 2002, Congress provided authority to privatize lodging facilities. Army privatized lodging at 10 installations in August 2009 and plans to privatize its remaining domestic facilities in the future. The National Defense Authorization Act for Fiscal Year 2008 requires GAO to review lodging privatization and an Army report. This report addresses (1) the factors the military services considered in their decisions to privatize, (2) challenges in the Army's privatization efforts, (3) the effect of the economic downturn on the Army's privatization program, and (4) the extent to which an Army report required by the act, issued in March 2010, addresses the elements in the law. GAO reviewed documentation and interviewed officials from the Office of the Secretary of Defense, the military services, the developer for the Army's privatization project, and four Army installations where lodging was privatized.

## What GAO Recommends

GAO recommends that the Army assess the costs and benefits of completing repairs to future facilities to be privatized, develop a transition plan, and clarify how it will incorporate lessons learned into future privatization efforts. In commenting on a draft of this report, DOD agreed with GAO's recommendations and plans to take actions to address them.

View [GAO-10-771](#) or [key components](#). For more information, contact Brian J. Lepore at (202) 512-4523 or [leporeb@gao.gov](mailto:leporeb@gao.gov).

## DEFENSE INFRASTRUCTURE

### Army's Privatized Lodging Program Could Benefit from More Effective Planning

#### What GAO Found

The Army decided to privatize its lodging facilities to obtain private sector financing to address the poor condition of its facilities and the high estimated costs to repair them, whereas the other military services decided not to privatize since the services' lodging expenses could increase due to higher room rates if privatized and officials viewed their lodging facilities as in generally good condition. GAO's analysis found that if the military services chose to privatize, lodging costs could increase due to higher room rates.

Army officials GAO interviewed generally viewed the lodging privatization transfer process and improvements the developer has made since the transfer as a success; however some challenges affected the timing of building new facilities and the transition of operations to the private developer. First, the private developer had to delay the start of major renovations and new construction by 2 years given several life-safety and critical system deficiencies at these facilities. The developer is currently repairing these deficiencies at its expense before these conveyed facilities can be used as collateral to obtain further financing to begin the planned renovations and new construction at the Army's 10 installations privatized to date. However, the extent to which similar life-safety and critical system deficiencies repairs for the next group of facilities to be privatized should be completed by the Army or the private developer is unclear because the Army has not fully assessed the costs and benefits of performing these repairs. Second, those involved in privatizing the lodging facilities experienced confusion about some aspects of the transfer of facilities and equipment to the developer because the Army did not develop a single, comprehensive transition plan that included information on all the tasks to be completed as part of the transfer process. Thus, installations encountered some problems, such as transferring data to the developer, and the Army may encounter similar challenges in future lodging privatization efforts.

The economic downturn hindered the private developer's ability to obtain financing for the lodging privatization project at favorable interest rates, which also delayed the project. Specifically, the Army cited the constrained credit environment, the ability to demonstrate sufficient cash flow, and the need to address facility life-safety and critical repair issues before using the facilities as collateral as factors that affected the private developer's ability to obtain long-term financing for the lodging privatization project.

The Army's report addressed the three elements required by the law, but it lacks some information related to one of the elements that could help clarify the Army's responses. The Army's report addressed the elements that the Army evaluate the efficiency of lodging privatization and make recommendations about expanding the program. While the Army's report describes implementation at the privatized installations, as required, it does not describe how it plans to incorporate lessons that the Army identified in the report into future privatization efforts.