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OVERSEAS HOUSING ALLOWANCE FOR GUAM:

A NEW WAY FORWARD

by

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A Research Report Submitted to the Faculty

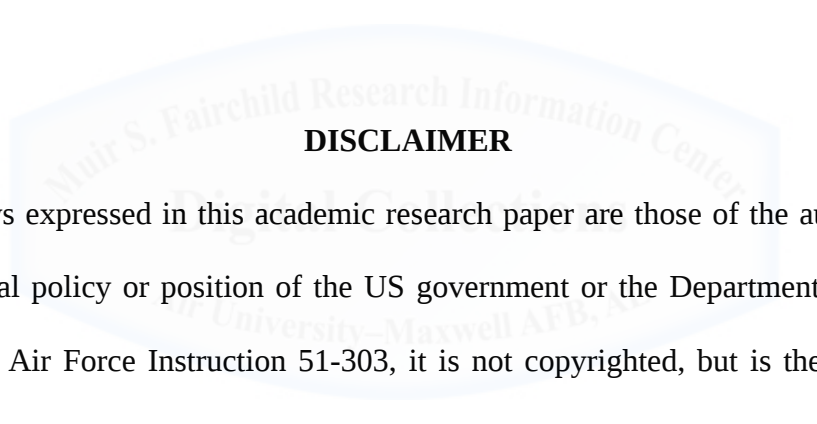
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TABLE OF CONTENTS

	<i>Page</i>
DISCLAIMER	ii
TABLE OF CONTENTS.....	iii
LIST OF FIGURES	v
PREFACE	vi
ABSTRACT.....	vii
SECTION 1: INTRODUCTION	1
SECTION 2: BACKGROUND	4
Brief Overview of OHA and BAH Military Housing Allowances.....	4
Law and Policies	4
Procedures Used to Establish Rates.....	7
Review of Previous Reports on Military Housing Allowances.....	12
President’s Commission on Military Compensation	12
Quadrennial Review of Military Compensation.....	15
SECTION 3: FINDINGDS AND COMPARABLE PROGRAMS	18
Review of Audit Findings on Guam	18
External Reviews by AFAA, NGB, OSI, IR, and Third Party Audits.....	18
Internal Reviews	19
Comparison of the Rent Plus Housing Allowance in Alaska and Hawaii.....	22
DOD/IG Rent Plus Audit Findings.....	23
Rent Plus Versus Variable Housing Allowance	24
SECTION 4: METHODOLOGY/EVALUATION RESEARCH CRITERIA	26
Rate Setting Methodology	26
Background Data of Contributors.....	28
Criteria for an Effective OCONUS Housing Program on Guam.....	29
SECTION 5: ANALYSIS OF CURRENT OHA PROGRAM ON GUAM.....	30
Impact on Retention.....	30
Impact on Cost Effectiveness.....	31
Impact on Ease of Administration	34
Impact on Equity for Recipients	35
SECTION 6: ANALYSIS OF A BAH PROGRAM IMPLEMENTATION ON GUAM.....	37
Expected Impact to Retention.....	37
Expected Impact to Cost Effectiveness.....	38

Expected Impact to Ease of Administration	41
Expected Impact to Equity for Recipients	41
SECTION 7: CONCLUSION.....	44
Recommendations.....	44
ENDNOTES	48
BIBLIOGRAPHY.....	51



LIST OF FIGURES

	<i>Page</i>
Figure 1. Overseas Housing Allowance for Guam (with dependent).....	8
Figure 2. Overseas Housing Allowance for Guam (without dependent).....	9
Figure 3. Basic Allowance for Housing for Honolulu, Hawaii (with dependent).....	11
Figure 4. Basic Allowance for Housing for Honolulu, Hawaii (without dependent).....	12
Figure 5. OHA for Guam (with housing documents)	21
Figure 6. OHA for Guam (no housing documents)	21
Figure 7. OHA for Guam	21
Figure 8. Comparison of OHA to BAH for Guam (with dependent)	32
Figure 9. Comparison of OHA to BAH for Guam (without dependent)	33
Figure 10. BAH for Hawaii (long tour)	39
Figure 11. BAH for Hawaii (short tour)	39
Figure 12. Course of Action Decision Matrix	45

PREFACE

As a result of an Air Force Audit Agency (AAFA) review in 2010, which was primarily focused on Overseas Housing Allowance (OHA) unauthorized and unsupported payments, the findings also revealed problems with Basic Allowance for Housing (commonly known as BAH II in the Reserve Component Finance Pay system). As Comptroller for my unit, I was required to notify the Airmen they would be subject to payment and/or collection for the unauthorized BAH-II payments from years prior. This notification of indebtedness did not go over well with the Airmen. It was at this point, after looking at the Joint Travel Regulation (then Joint Federal Travel Regulation), that I realized my unit had problems bigger than just the BAH II overpayments. The Army Guard unit assigned to Guam later realized that they, too, had the same challenges with BAH. This was a problem that would affect many Reserve Component Service members assigned to Guam or conceivably any overseas location. Hence, my inspiration to put this pressing concern of mine to paper which I ultimately hope will serve greater purposes beyond this course.

There are a few individuals I owe much gratitude and many thanks for helping me complete this thesis. First, I would like to thank COL Limtiaco, United States Property and Fiscal Office for Guam, for his mentorship, keeping me on track, and for the weekly phone calls to ensure I did not lose my mind and give up during the process. Next, to Dr. Paul Moscarelli and Dr. Ouellette, my Research Elective I and II instructors and advisors respectively, for providing guidance and the critical feedback needed to improve my writing week after week. Lastly, to my family I am forever indebted for their selfless sacrifices. Their patience and personal encouragement allowed me to finish the writing and focus on the ultimate end state.

ABSTRACT

In 2012, the final AAFA report findings revealed Guam's military leadership had some serious problems to address with its current Overseas Housing Allowance program. Around 2010 and prior to the final release of the AAFA report, investigators began an aggressive campaign to fix what seemed like a systemic pattern of OHA fraudulent activity across all ranks and Services. Also discovered were other challenges with the OHA program which included unfairness in allowance distribution, excessive program expenses, problematic housing system administration, and an inadequate Reserve Finance Pay system. These findings prompted a greater in-depth review of existing regulations, instructions, and processes. Directly linked to the OHA issues learned, were the rising pressures for an alternate housing option, making BAH a very attractive possibility for Guam.

The purpose of this research was to determine if Guam would be a good candidate for BAH. To justify the recommendation of BAH, an evaluation framework is used to compare the current OHA program to the newly proposed BAH solution. The two housing programs were compared using independent variables measuring retention, cost effectiveness, ease of administration, and equity for recipients. The results of this research found the BAH housing alternative demonstrates significant cost savings to the government, simplicity in ease of program administration, and equitable distribution of housing allowances for Service members. A BAH construct would be beneficial to DOD, Service members, and their families.

SECTION 1: INTRODUCTION

Guam, a small island and U.S. territory in the Pacific, boasts a military population of roughly 12,000 military members and their families and falls into the Outside Continental United States (OCONUS) category.¹ Service members assigned to OCONUS locations (with the exception of Alaska and Hawaii) and not furnished government housing are entitled to receive a monthly Overseas Housing Allowance (OHA). Over the years, the OHA program on Guam has come under much scrutiny and review. Administration of the OHA program has seen challenges such as inadequate internal controls, imperfect Reserve Finance Pay systems requiring workarounds, and lack of a Base Housing Office (these later two apply to Guard and Reserve). Service members have also begun to question the inequalities of housing compensation given to military members assigned to Guam. Because of these recent concerns local leadership as well as those on Capitol Hill question whether the OHA program remains effective for the island. Consequently, a new way forward is proposed and one that offers another possible housing allowance option for Guam, Basic Allowance for Housing (BAH), commonly used in Continental United States (CONUS).

The current OHA Program on Guam is broken and sprinkled with systemic problems across all Services. Agencies such as Air Force Audit Agency, National Guard Bureau, Office of Special Investigations, Internal Review, and third party audits have all confirmed in recent reports the current OHA program is flawed.² Also, in accordance with 37 USC § 403, it reads “Except as otherwise provided by law, a member of a uniformed service who is entitled to basic pay is entitled to a basic allowance for housing at the monthly rates prescribed under this section or another provision of law with regards to the applicable component of the basic allowance for

housing.”³ The basic principle for general housing entitlements for all military members warrants the attention and research review on this subject.

The OHA program remains far from the perfect housing solution for Guam. Several recent rewrites within the last five years to the Joint Travel Regulation (JTR), formally Joint Federal Travel Regulation (JFTR) for OCONUS locations prior to October 2014, illustrate OHA remains a high interest item for overseas locations. Indirectly, the revisions to the JTR/JFTR put greater restrictions on the administration and eligibility for OHA in all OCONUS locations. These current restrictions have not been beneficial for DOD, Service members, and their families assigned to Guam. The OHA program is costly for the government, difficult to manage, lacks flexibility, and can be unjust for some.

BAH is needed for Guam in order to ensure military housing allowance equities for service members and cost savings for the government. Current discrepancies exist in Guam’s OHA program, which many individuals attribute to unfairness in allowance distribution, excessive program expenses, and problematic housing system administration. The JTR, Department of Defense and Air Force Instructions (AFIs) clearly define OCONUS military housing regulations and entitlements, however, despite recent JTR rewrites to correct the challenges OHA policy remains ineffective and imbalanced leaving Guam’s unique situation unresolved. Recent audits, internal and external reviews, and comparative assessments of OHA processing between the Active and Reserve components reveal inadequate internal controls and inconsistent processes plague Guam’s OHA program.⁴ These findings, to include the 1986 achievement of the Alaska and Hawaii military housing allowance initiatives, construct a logical case for BAH for Guam.⁵ Some service members, housing officials, and local realtors may argue the cost-based OHA program is a better fit for Guam considering its high cost of living,

steep rental costs, and escalating mortgage prices. Unfortunately, many other interested parties disagree and desire for a reasonable, unproblematic, equitable housing compensation afforded service members residing in CONUS.

This research paper will employ the evaluation framework. With the high level of interest in Guam's military housing allowance program, the central point of this research will be to develop criteria with which to methodically make the policy recommendation as to whether OCONUS military housing allowance should be changed to BAH for Guam. Existing OHA and BAH laws, policies, and audit findings will be studied to include compensation concerns. In addition, an examination of a comparable study done on military housing in Alaska and Hawaii with similar high housing costs and geographic remoteness will be conducted. Criteria such as retention, cost effectiveness, ease of administration, and equity for recipients will be analyzed for impact and expected effectiveness against Guam's current OHA Program and proposed BAH solution. Ultimately, the housing allowance solution that provides least impact, cost savings to the government, simplified administration and equitable distribution of housing allowances will be desired. The analysis will help those interested consider whether Guam should continue to be an overseas location for housing allowance purposes or be treated as part of CONUS, and therefore under the BAH program. The results of this proposal will aid in the establishment of a successful housing policy benefiting service members of all ranks assigned to Guam.

SECTION 2: BACKGROUND

Brief Overview of OHA and BAH Military Housing Allowances

Basic Allowance for Housing (BAH) is needed for Guam in order to ensure military housing allowance equities for Service members and cost savings for the government. Current discrepancies exist in Guam's Overseas Housing Allowance (OHA) program which contribute to unfairness in allowance distribution, excessive program expenses, and problematic housing system administration. The JTR, DOD, and AFIs clearly define OCONUS military housing regulations and entitlements. However, despite recent JTR rewrites to correct the challenges OHA policy remains ineffective and imbalanced leaving Guam's unique situation unresolved. Note, while a total of seven housing allowance rates exist, this research focuses solely on OHA and BAH and will not delve into the specifics to include Family Separation Housing, BAH Partial, BAH Differential, BAH Transit, and BAH Reserve Component. In order to understand the concept fully, one must comprehend the different types of housing allowances available for those with/without dependents as well as CONUS/OCONUS designation, focusing particularly of Guam's OHA program.

Laws and Policies

OHA and BAH are two separate and distinct military housing allowance programs governed primarily through the JTR. The JTR is the statutory regulation on housing and has the force and effect of law issued primarily under the authority of 37 USC § 481 and 37 USC § 1001.⁶ At first glance, both programs appear very similar. In general, a member on active duty entitled to basic pay is authorized a housing allowance based on the member's grade, dependency status, and location.⁷ Rates for OHA and BAH are corresponding aligned with the member's grade and whether the member is with/without dependent. However, the differences

are most evident when one examines the geographic location. The location of the member's Permanent Duty Station (PDS) drives whether the housing allowance will be OHA or BAH.

OHA, as the name suggests, is authorized to members assigned to a PDS in military overseas location outside the United States. The OHA program is designed to help offset housing expenses, private sector leased or owned, for a member and/or dependent at the assigned overseas location.⁸ The JTR indicates the reported housing must be the actual residence that the member occupies and from which the member commutes to and from work on a daily basis.⁹ Payment of OHA requires a lease agreement or a verifiable purchase price of a home/mortgage.¹⁰ In order to receive this allowance a member must complete an Individual Overseas Housing Allowance Report, commonly called the DD Form 2367. The senior officer of the Uniformed Services in the country concerned then approves the DD Form 2367, or the individuals or offices designated for that purpose by the senior officer.¹¹

BAH, on the other hand, is the military housing allowance authorized to members assigned to a PDS anywhere within the 50 states in CONUS. Unlike OHA which is a cost based reimbursement allowance, the BAH rate is based on median housing costs and is paid independently of a member's actual housing costs. And unlike OHA where the actual residence is a determining factor to be eligible for the allowance, BAH is indifferent to whether the residence is shared, owned, rented, and with/without utilities. Neither a DD Form 2367 nor the rigorous review and approval process is required for BAH eligibility. The original BAH law stated the allowance could cover no more than 80 percent of calculated housing costs, but this has since been changed to a member's out of pocket expense of roughly two percent in 2016 with gradual increases expected through 2019.¹²

Uniformed service members and eligible Department of Defense civilians assigned to Guam as their PDS, and not assigned to government quarters, may be eligible for OHA. OHA for Guam falls under the rules of the OHA program with oversight primarily in the hands of Joint Region Marianas (JRM). Although program administration may differ slightly between commands, all have basic OHA Standard Operating Procedures in place. On Guam, the local Base Housing Office is the primary office of responsibility for the Active Component (AC), while the Guard and Reserve have duly appointed individuals and offices designated for that purpose by the senior officer at JRM. This appointment is usually taken on as additional duty since a Reserve Component (RC) unit typically will not be equipped with a Base Housing Office for their local membership.

Not only is OHA program administration different for the Guard and Reserve members residing on Guam, but housing allowances are as well. A RC member is only eligible for OHA while on contingency orders or when activated for 31 or more days. A RC member is generally unable to avail himself of military housing and lives out in the community. Over the last decade, the Per Diem, Travel and Transportation Allowance Committee (PDTATAC), chartered under the Department of Defense, has been aggressively pursuing updates to the JTR, specifically addressing the loopholes in the OHA program. One such major change in the JTR specifies an AC or RC member if eligible for OHA, may seek reimbursement for the actual cost of their lease or mortgage provided the dwelling is their actual residence and not jointly occupied with relatives or friends who own the property. However, unlike the AC, this dynamic may influence housing choices of RC members where high costs of living and close family and friend relations abound in the small island U.S. territory. Ironically, the rules and regulations for BAH appear far less stringent than those that govern the OHA program.

Procedures Used to Establish Rates

The Defense Travel Management Office (DTMO) is the primary office of responsibility for determining housing allowances for both BAH and OHA. The Department of Defense working in tangent with the Services designed the BAH program to provide accurate housing allowances on the market price of rental housing rather than member reported actual rental costs found within the OHA program.¹³ Geographic duty location, pay grade, and with/without dependent rate determine the rates for both OHA and BAH. The procedures used to establish rates for OHA and BAH are quite complex.

Concerning OHA, every six months the Department of Defense's PDTATAC reviews established OHA rates. The information used to set the OHA allowance comes from the Service member, through the Defense Finance Accounting System (DFAS), at each duty station.¹⁴ With OHA, the member is reimbursed actual rental costs not to exceed the maximum OHA rate for each locality and grade. The maximum OHA rates are established based on members' actual rental costs in those locations.¹⁵ OHA is calculated by comparing the member's monthly rent to the prescribed locality rental allowance, selecting the lesser of the two, and then adding the appropriate utility/recurring maintenance allowance, which is based on expenses reported by members receiving OHA. The OHA without dependent rate is 90 and 75 percent of the maximum allowable OHA and utility allowance respectively.

With OHA, the maximum rental allowance is set in the local currency. An important distinction to point out in this discussion is the local currency for Guam is the U.S. Dollar (USD). No other foreign currency exists for this geographic overseas location. The PDTATAC closely monitors changes in the exchange rate and can adjust OHA if necessary. However, since

rental costs are based on the USD, Guam is immune from daily fluctuating currency rate changes typically found in most overseas locations. Unlike OHA, BAH is computed using only the USD.

Current OHA rates for Guam with and without dependent are as listed below for reference and will be discussed further in subsequent sections.

OVERSEAS HOUSING ALLOWANCE FOR GUAM

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	RENTAL ALLOWANCES (with dependent)	UTILITY/RECURING MAINTENANCE ALLOWANCE (with dependent)	MAXIMUM ALLOWABLE OHA (with dependent)
O6	\$ 2,900.00	\$ 919.00	\$ 3,819.00
O5	\$ 2,800.00	\$ 919.00	\$ 3,719.00
O4	\$ 2,600.00	\$ 919.00	\$ 3,519.00
O3	\$ 2,450.00	\$ 919.00	\$ 3,369.00
O2	\$ 2,450.00	\$ 919.00	\$ 3,369.00
O1	\$ 2,450.00	\$ 919.00	\$ 3,369.00
O3E	\$ 2,600.00	\$ 919.00	\$ 3,519.00
O2E	\$ 2,450.00	\$ 919.00	\$ 3,369.00
O1E	\$ 2,450.00	\$ 919.00	\$ 3,369.00
WO5	\$ 2,800.00	\$ 919.00	\$ 3,719.00
WO4	\$ 2,600.00	\$ 919.00	\$ 3,519.00
WO3	\$ 2,600.00	\$ 919.00	\$ 3,519.00
WO2	\$ 2,450.00	\$ 919.00	\$ 3,369.00
WO1	\$ 2,450.00	\$ 919.00	\$ 3,369.00
E9	\$ 2,600.00	\$ 919.00	\$ 3,519.00
E8	\$ 2,450.00	\$ 919.00	\$ 3,369.00
E7	\$ 2,450.00	\$ 919.00	\$ 3,369.00
E6	\$ 2,450.00	\$ 919.00	\$ 3,369.00
E5	\$ 2,450.00	\$ 919.00	\$ 3,369.00
E4	\$ 2,275.00	\$ 919.00	\$ 3,194.00
E3/E2/E1	\$ 2,275.00	\$ 919.00	\$ 3,194.00

Figure 1. OVERSEAS HOUSING ALLOWANCE FOR GUAM (with dependent)

OVERSEAS HOUSING ALLOWANCE FOR GUAM

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	RENTAL ALLOWANCES (without dependent, multiply by 90%)	UTILITY/RECURING MAINTENANCE ALLOWANCE (without dependent, multiply by 75%)	MAXIMUM ALLOWABLE OHA (without dependent)
O6	\$ 2,610.00	\$ 689.25	\$ 3,299.25
O5	\$ 2,520.00	\$ 689.25	\$ 3,209.25
O4	\$ 2,340.00	\$ 689.25	\$ 3,029.25
O3	\$ 2,205.00	\$ 689.25	\$ 2,894.25
O2	\$ 2,205.00	\$ 689.25	\$ 2,894.25
O1	\$ 2,205.00	\$ 689.25	\$ 2,894.25
O3E	\$ 2,340.00	\$ 689.25	\$ 3,029.25
O2E	\$ 2,205.00	\$ 689.25	\$ 2,894.25
O1E	\$ 2,205.00	\$ 689.25	\$ 2,894.25
WO5	\$ 2,520.00	\$ 689.25	\$ 3,209.25
WO4	\$ 2,340.00	\$ 689.25	\$ 3,029.25
WO3	\$ 2,340.00	\$ 689.25	\$ 3,029.25
WO2	\$ 2,205.00	\$ 689.25	\$ 2,894.25
WO1	\$ 2,205.00	\$ 689.25	\$ 2,894.25
E9	\$ 2,340.00	\$ 689.25	\$ 3,029.25
E8	\$ 2,205.00	\$ 689.25	\$ 2,894.25
E7	\$ 2,205.00	\$ 689.25	\$ 2,894.25
E6	\$ 2,205.00	\$ 689.25	\$ 2,894.25
E5	\$ 2,205.00	\$ 689.25	\$ 2,894.25
E4	\$ 2,047.50	\$ 689.25	\$ 2,736.75
E3/E2/E1	\$ 2,047.50	\$ 689.25	\$ 2,736.75

Figure 2. OVERSEAS HOUSING ALLOWANCE FOR GUAM (without dependent)

For BAH, annually the DTMO collects data for approximately 300 Military Housing Areas (MHAs) across the 50 states using rental costs for apartments, townhouses/duplexes, and single family detached houses of varying bedroom sizes.¹⁶ Local price data for rental housing units plus utilities are used in the computation of BAH. To ensure reliability and accuracy in the determination of rental data multiple sources are used in the data collection process. These sources include and not limited to real estate professionals, real estate management companies, local newspapers, housing offices, installation leadership, data from the America Community

Survey (for utilities), and on site evaluations.¹⁷ To calculate BAH, two factors are considered. First, the total housing costs (median rent + average utilities) for each MHA using six predesignated anchor points are determined. Second, using the housing standards table a separate BAH rate for each pay grade is calculated. Unlike OHA, BAH rates do not take into account mortgage costs. Essentially, BAH rates are fixed once the duty station is known. As a result, with BAH member choices for housing location and preferences have no influence on the BAH calculation rates. The BAH without dependent rate is 75 percent of the with dependent rate.

Given that no current BAH rates exist for Guam, the research chose to formulate pseudo BAH locality rates for the island. The process used to determine Guam BAH rates involved estimating housing costs for each of 23 pay grades (E1 through O6), reviews on similarly priced military housing in CONUS of similar cost, and data on renters' costs and owners' rental equivalents (median rent and average utilities) for which sufficient data exists. Given the extensive time to generate new housing rate tables and anchor points, this research chose to pool the data in order to provide sufficient data to establish statistically reliable housings costs and BAH rates. Operations research procedures applied in setting BAH rates such as geographical-proximity and pay grade smoothing is explored for use in estimating housing costs.¹⁸ Data for these procedures will be obtained from such sources as the Bureau of Census reports, American Community Survey, and DMTO locality charts.¹⁹ With the pseudo BAH rates established, in later section that follows a financial comparison of BAH to OHA will be measured and aid in the analysis ultimately determining which housing program is more advantageous for the government.

Proposed BAH rates for Guam with and without are dependent are listed below for review.

BASIC ALLOWANCE FOR HOUSING FOR HONOLULU, HAWAII

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	RENTAL ALLOWANCES (with dependent)	UTILITY/RECURRING MAINTENANCE ALLOWANCE (with dependent)	MAXIMUM ALLOWABLE BAH (with dependent)
O6	\$ 4,122.00	\$ -	\$ 4,122.00
O5	\$ 4,083.00	\$ -	\$ 4,083.00
O4	\$ 3,786.00	\$ -	\$ 3,786.00
O3	\$ 3,375.00	\$ -	\$ 3,375.00
O2	\$ 2,901.00	\$ -	\$ 2,901.00
O1	\$ 2,706.00	\$ -	\$ 2,706.00
O3E	\$ 3,567.00	\$ -	\$ 3,567.00
O2E	\$ 3,351.00	\$ -	\$ 3,351.00
O1E	\$ 3,111.00	\$ -	\$ 3,111.00
WO5	\$ 3,720.00	\$ -	\$ 3,720.00
WO4	\$ 3,537.00	\$ -	\$ 3,537.00
WO3	\$ 3,384.00	\$ -	\$ 3,384.00
WO2	\$ 3,153.00	\$ -	\$ 3,153.00
WO1	\$ 2,910.00	\$ -	\$ 2,910.00
E9	\$ 3,495.00	\$ -	\$ 3,495.00
E8	\$ 3,264.00	\$ -	\$ 3,264.00
E7	\$ 3,075.00	\$ -	\$ 3,075.00
E6	\$ 2,904.00	\$ -	\$ 2,904.00
E5	\$ 2,679.00	\$ -	\$ 2,679.00
E4	\$ 2,613.00	\$ -	\$ 2,613.00
E3/E2/E1	\$ 2,613.00	\$ -	\$ 2,613.00

Figure 3. BASIC ALLOWANCE FOR HOUSING FOR HONOLULU, HAWAII (with dependent)

BASIC ALLOWANCE FOR HOUSING FOR HONOLULU, HAWAII

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	RENTAL ALLOWANCES (without dependent)	UTILITY/RECURING MAINTENANCE ALLOWANCE (without dependent)	MAXIMUM ALLOWABLE BAH (without dependent)
O6	\$ 3,378.00	\$ -	\$ 3,378.00
O5	\$ 3,198.00	\$ -	\$ 3,198.00
O4	\$ 3,090.00	\$ -	\$ 3,090.00
O3	\$ 2,820.00	\$ -	\$ 2,820.00
O2	\$ 2,658.00	\$ -	\$ 2,658.00
O1	\$ 2,550.00	\$ -	\$ 2,550.00
O3E	\$ 2,901.00	\$ -	\$ 2,901.00
O2E	\$ 2,778.00	\$ -	\$ 2,778.00
O1E	\$ 2,679.00	\$ -	\$ 2,679.00
WO5	\$ 3,117.00	\$ -	\$ 3,117.00
WO4	\$ 2,943.00	\$ -	\$ 2,943.00
WO3	\$ 2,802.00	\$ -	\$ 2,802.00
WO2	\$ 2,721.00	\$ -	\$ 2,721.00
WO1	\$ 2,592.00	\$ -	\$ 2,592.00
E9	\$ 2,790.00	\$ -	\$ 2,790.00
E8	\$ 2,724.00	\$ -	\$ 2,724.00
E7	\$ 2,619.00	\$ -	\$ 2,619.00
E6	\$ 2,556.00	\$ -	\$ 2,556.00
E5	\$ 2,349.00	\$ -	\$ 2,349.00
E4	\$ 1,959.00	\$ -	\$ 1,959.00
E3/E2/E1	\$ 1,959.00	\$ -	\$ 1,959.00

Figure 4. BASIC ALLOWANCE FOR HOUSING FOR HONOLULU, HAWAII (without dependent)

Review of Previous Reports on Military Housing Allowances***President's Commission on Military Compensation***

The President's Commission on Military Compensation (PCMC) highlights the fact the concerns of service members going as far back as World War II has changed very little.²⁰

Military compensation is a top three concern for uniformed members. Now seventy years later, the same issues and problems remain at the forefront of the list and continue to present themselves to the commissions, reviews, and studies. Little to no change is no indication of a problem, but considerable debate continues to exist since military compensation remains the

single largest component of defense spending. The underlying concerns at the heart of the military compensation debate are cost, effectiveness of the current system, equity and morale, and the philosophy for setting compensation policy.²¹

Given the enormous costs and questionable effectiveness of the current military compensation, inequities in the current system and the subsequent effects on morale, the PCMC desires to develop a fair, flexible, and cost effective compensation system.²² The compensation issues can be categorized by retirement, pay, and fringe benefits. The latter two are most germane in this research as allowances and military housing fall under pay and fringe benefits respectively.

With regards to military pay, the dominant pay issues have been salary versus pay and allowances, what pay should look like, and pay differentiation.²³ Ironically, “One of the PCMC’s most significant findings with respect to military pay does not concern changes to the current system, but is rather a recommendation against change.”²⁴ From 1967 through 1977 many reputable commissions such as the Defense Manpower Commission and the General Accounting Office initiated recommendations to change the military’s current pay and allowance system to a salary system but these proposals were killed despite the known advantages.²⁵ Clearly, this reveals radical change to the pay structure is not always welcome. Effectiveness rather than cost savings triumphed in this case. More importantly, a pay and allowance system carries a greater weight to the military member and his/her lifestyle than originally thought.

In addition to carrying greater weight, another point to highlight is the concern drawn from the review over pay lines. The statement reads, “It is not clear whether it is necessary (or politically feasible) to implement different pay lines for the different Services.”²⁶ Conversely, whether the PCMC is fully aware or not subtle differences do exist today in military pay.

Recently, the National Guard joined the Joint Services table as the fifth Service but one can argue some members of the RC are victims of different pay lines. To illustrate, RC members stationed OCONUS activated for a contingency or on 31 or more days without a valid lease or mortgage is ineligible for OHA. This same member had he or she lived in say Alaska, Hawaii, or CONUS would be eligible for BAH. The design flaws can be attributed to the history of the National Guard having primarily been designed to protect the state. No one considered how this original design would affect the small percentage of members assigned OCONUS.

Along with pay, the PCMC fell short with fringe benefits (which includes military housing among others) covering far less than in its analysis of military pay.²⁷ Again, the review lists 1) overseas as the exception not offering specific recommendations and 2) the PCMC not dealing with the inequities of the current housing situation for off base personnel. The commission does however recommend benefits should be clearly stated, not be used to solve temporary problems, and should deliver what it promised.²⁸ Erosion of fringe benefits is largely the result of Department of Defense's piecemeal way of doing business over the last several years.

The philosophy for setting compensation policy especially in the area of fringe benefits requires greater review. While the masses may be taken care of, the entire membership should be afforded comparable military compensation across the Services regardless of location. The review highlights a unique comparison of competitiveness to comparability as well as military as a job to military as a profession.²⁹ As one examines past and present day compensation levels as they relate to recruitment and retention of Service members in the 21st century, taking into consideration the likes and dislikes of the younger, technologically advanced Service members is absolutely important.

Quadrennial Review of Military Compensation

Conducted every four years by direction of the President the Quadrennial Review of Military Compensation Report (QRMC) offers insightful information on current military compensation. The report reads, “The current military compensation system has allowed us to recruit and retain the highest caliber men and women in our Nation’s history, and that system needs to be regularly validated for sufficiency and responsiveness.”³⁰ One of the primary objectives of the QRMC is to ensure Service members are satisfactorily compensated and defense funds are efficiently spent. In an era where the military competes against the private sector and other organizations for the same resource pool of skilled candidates, suitable compensation is essential to remain competitive in the marketplace. A review of military compensation reveals some interesting facts when comparing civilian compensation, maintaining the strength of an all-volunteer force, and implementing new reforms.

First, in general military compensation has increased in comparison to civilian wages for over ten years. From 2001-2009, BAH, the second largest component of regular military compensation, grew considerably at a rate by over 40 percent for enlisted and 27 percent for officers, faster than the growth of civilian wages.³¹ During this same period, increases in BAH were far above the cost of living as defined by the Consumer Price Index.³² This real growth was by design since the DOD planned to reduce out-of-pocket housing expenses to nothing for Service members as described in the earlier section. In addition, the tax advantage offered by BAH cannot be discounted in this equation.

Second, restoring the strength of the all-volunteer force requires the United States to maintain its two-fold sacred contract with U.S. Service members, one of which is to properly compensate and care for our men and women in uniform and their families both during and after

their service.³³ Recognizing the sacrifices made by the Service members and their families whilst balancing a compensation package attractive enough to recruit and retain remains a challenge for the Services. However, narrowing the gap between military and civilian compensation needs to occur to sustain the U.S. military in a responsible and fair manner. The DOD is proposing many changes in the 2014 Quadrennial Defense Review some of which include restrained annual military pay raises over the next five years and slowing the rate of growth in tax-free housing allowances, all in an effort to save a combined \$12 billion through 2019 and even more by 2024 (a far smaller percentage of legislated total reduction in DOD's topline).³⁴ The proposal intends to slow the rate of BAH growth over a phase-in period of three years and no longer reimbursing for renter's insurance until tax-free housing allowances cover an average of 95 percent of housing expense saving \$5 billion from 2015-2019.³⁵ To fully implement the proposed changes requires backing from Congress, U.S. citizens, and a mindset of reform.

Third, the DOD cannot expect to continue at its current rate of growth in this austere, constrained, fiscal environment without implementing reforms in military compensation. Despite the upward trends in military compensation, the figures alone are not enough to base one's decision. Retention, risk of war, operational tempo, and desired quality of life for the Service member, should also be considered when determining whether military pay levels are adequate.³⁶ The QRMC suggests that military pay is relatively stable and growing over a 20-year military career and over time. Future growth in military compensation will require a comprehensive approach to responsible reform as well as innovation if the United States is to maintain its technological edge, advance U.S. interests, and streamline the force in the out years. Maintaining the commitment to sustaining and strengthening the health of the all-volunteer force

in times of decreasing defense budgets requires the following: 1) prudent, significant, and enduring reforms wherever possible, 2) finding efficiencies with the DOD organization, 3) reforming internal processes and consolidating infrastructure, and 4) the unpleasant and unpopular making adjustments to pay and compensation.³⁷

With the Total Force integration approach the greater use of Reserve Component members in an operational capacity has increased interest in how the Guard and Reserve are compensated against planned utilization. The DOD needs to carefully consider potential changes in the balance amongst the AC and RC forces, especially revisiting discussions on compensation as it relates to costs and retention. Unfortunately, military compensation has not always been equitable for the RC units, especially RC units assigned OCONUS. To illustrate, capitalizing on the earlier RC example, historically Guard programs were fashioned around the idea that Service members would neither occupy government quarters nor deploy, at least not to the operational tempo one sees today. However, contingency operations and long tour activations are now quite the norm for an RC member. Under current regulations, without a valid lease or mortgage, an AC or RC member (who may share a dwelling with a family member), assigned OCONUS will receive neither BAH or OHA. This inequity remains troubling to those concerned. Military pay and benefits mean as much to an RC member as AC so adjusting the right balance between the two components is critical.

SECTION 3: FINDINGS AND COMPARABLE PROGRAMS

Review of Audit Findings on Guam

Over the past ten years, recent audits, internal and external reviews, and comparative assessments of OHA processing between the Active and Reserve components reveal inadequate internal controls and inconsistent processes plague Guam's OHA program. However, Guam is not alone in her troubles. These findings, to include the 1986 achievement of the Alaska and Hawaii military housing allowance initiative, make them the only two OCONUS locations exempt from OHA. These discoveries construct a logical case for BAH for Guam.

External Reviews by AFAA, NGB, OSI, IR, and Third Party Audits

In 2010, despite Guam's geographical remoteness in the Pacific, the tiny OCONUS duty station came into contact with housing allowance fraud of an unwelcomed kind. The Air Force Office of Special Investigations (AFOSI) discovered a systemic problem with Service members producing fraudulent housing leases on Guam with samplings dating as far back as 1998. As a result, the AFOSI requested Air Force Audit Agency (AFAA) conduct an audit for the period 2007-2011 of a local Guard unit on Guam to determine whether Service members were properly authorized and accurately paid OHA entitlements.³⁸ At stake, was a potential monetary benefit calculation of roughly \$686,854 to the Air Force.³⁹ Questionable OHA supporting documentation included the member and landlord living at the same address (such as parents or siblings), failing to report members as sharers on the DD 2367, and inconsistent addresses when comparing lease addresses used to claim OHA to other documentation. The questionable OHA documents and claims did not support OHA entitlements. Apparently, somehow Service members found a loophole in the OHA process and the word spread like wildfire during this period.

However, the individuals performing the illicit activity represented all military components, as the Service community on Guam later learned. A force mix of Active, Guard, and Reserve were affected, primarily plaguing the junior enlisted Service members. Those Service members found guilty of housing allowance fraud were charged in U.S. District Court. The double digit cases became staggering as one by one each case got processed, all very similar in charges brought forward for fraudulently produced leases.

Unfortunately, sometimes it takes something bad to happen before changes can be implemented. Perhaps the Service members wanted equality rather than inequality in housing allowances. Regardless, it is important to understand why this dilemma flourished as it did in the recent decade. This paper must point out while Guam had its housing allowance troubles the other U.S. territories were not unaffected. The findings from Guam led auditors to Puerto Rico as well to validate findings. To the surprise of no one, their discoveries were consistent with the housing allowance problems on Guam. As will be shown, these troubles are nothing new to the Services and DOD.

Internal Reviews

Following the AFAA audit, came many more internal reviews on the OHA program. NGB and Internal Review each independently over the last ten years examined procedural, supervision, and documentation controls over OHA payments. Other issues beyond the control of Service members began to surface, requiring immediate attention and correction. These issues included separation of duties and a deficient pay system, particularly for the RC units. Specifically, a lack of separation of duties when processing OHA entitlements and the absence of documentation certification for entitlement payments was noted along with system and internal control weaknesses in the military pay system.⁴⁰

The concern over separation of duties is perhaps a more pressing problem for RC units than the AC. With RC units, the absence of a Base Housing Officer to certify the DD Form 2367 raises red flags. This is especially challenging when others are appointed as Housing Officers as an additional duty. Personnel tasked with the additional duty of a Housing Officer will - either through ignorance or through laziness – not conduct the most basic procedures practiced by dedicated Housing Office personnel. As units move toward the mandated DOD audit readiness by 2017, proper separation of duties should not be overlooked as this area has demonstrated it warrants special attention.

In addition to separation of duties, another concern highlighted in the AFAA audit was payment for Basic Allowance for Housing Reserve Component, BAH-RC, commonly seen on the Leave Earning Statement (LES) as BAH Type II. To recap, OHA is authorized for members ordered to active duty for a long tour of 31 or more days or contingency orders. On the other hand, BAH-RC is authorized for members ordered to active duty for a short tour of 30 days or less. Unlike OHA, BAH-RC requires no paperwork to show housing costs. Like OHA, however, BAH-RC is not authorized if the member does not have a valid lease or mortgage. The figures below illustrate the differences on sample LESs for an RC member on long tour and OHA eligible, long tour and OHA ineligible, and short tour with BAH Type II authorized but OHA ineligible. The long tour figures are calculated on a 15-day pay period, while the short tour figures represent four days of Annual Training for an enlisted member.

OHA for Guam (with housing documents)

ENTITLEMENTS		
Long Tour (31 days or more or contingency orders; valid lease or mortgage)		
TYPE		AMOUNT
Base Pay	\$	1,398.90
BAS	\$	184.14
BAH Type II	\$	459.75
OHA**	\$	749.70
COLA	\$	434.56
TOTAL*	\$	3,227.05

* Figure 5. Represents E-5 with dependent, seven years Time in Service (TIS), and OHA eligible

** For RC members, the combined total of authorized OHA (sum of OHA + BAH Type II)

OHA for Guam (no housing documents)

ENTITLEMENTS		
Long Tour (31 days or more or contingency orders; no valid lease or mortgage)		
TYPE		AMOUNT
Base Pay	\$	1,398.90
BAS	\$	184.14
BAH Type II	\$	-
OHA	\$	-
COLA	\$	425.70
TOTAL	\$	2,008.74

* Figure 6. Represents E-5 with dependent, six years Time in Service, and OHA ineligible

OHA for Guam

ENTITLEMENTS		
Short tour (30 days or less)		
TYPE		AMOUNT
Base Pay	\$	1,398.90
BAS	\$	49.10
BAH Type II	\$	122.60
OHA	\$	-
COLA	\$	86.36
TOTAL*	\$	1,656.96

* Figure 7. Represents E-5 with dependent, seven years TIS, four days of Annual Training, BAH Type II authorized

The 2012 AFAA discovery revealed the MAPPER pay system now Defense Military Office (DMO) RC pay system adopted in Guam was deficient. The RC pay system continued to

pay out BAH-RC even when members were not eligible. This shortfall was attributed to a RC military pay system intended primarily for CONUS reserve units eligible for BAH and not OCONUS reserve units authorized OHA. The AFAA audit reported a sampling of members on long tour orders at some point between fiscal years 2007-2011 were improperly paid approximately \$707,000 of BAH-RC.⁴¹ The improper payments were the result of a flawed RC military pay system designed to automatically process BAH-RC for long tours and contingency when members could not produce a valid lease or mortgage.

The only feasible solution for military pay technicians to turn off BAH-RC when ineligible was to change a member's dependency status to Military to Military and living in government quarters. This recommended corrective action in itself was questionable, subject to human error, and time consuming for military pay technicians. Essentially, a military pay technician would have to change a member's status every time an RC member went on a short or long tour despite no real change to the member's status. A manual A15 transaction is then initiated to stop the payment when ineligible. While the changes corrected the potential overpayment, the RC military pay system shortfall revealed a serious system issue and internal control deficiency which warranted the attention of NGB and Internal Review. Unfortunately, after the finding of the AFAA the quick fixes mentioned above were to continue as the norm as program rewrites for OCONUS RC units were too costly. It became apparent no one was going to invest in either a MAPPER or DMO-RC military pay system solution for the handful of RC units residing in OCONUS when it worked perfectly fine for RC units elsewhere in CONUS.

Comparison of the Rent Plus Housing Allowance in Alaska and Hawaii

A good illustration in consideration of BAH for Guam was the 1986 U.S. GAO report entitled *Military Housing Allowance: Housing Allowances Provided Military Members in the*

*United States.*⁴² Concerned with increasing costs, Congress considered whether Alaska and Hawaii should continue to be overseas locations for housing allowance purposes and, therefore, under the Rent Plus housing allowance program, or be treated as part of CONUS, and there under the Variable Housing Allowance (VHA) program.⁴³ “The Defense Authorization Act for 1986 placed Alaska and Hawaii under the CONUS based VHA program.”⁴⁴ Since then, Alaska and Hawaii remain the two exemptions and now enjoy OCONUS designation but with applicable CONUS BAH rates. Knowing the history - as well as success - of the Alaska and Hawaii initiative aid in the evaluation of BAH and whether this new housing idea remains ideal for Guam.

DOD/IG Rent Plus Audit Findings

Prior to 1986, Alaska and Hawaii were categorized overseas posts and consequently grouped under the Rent Plus housing allowance program. In 1 October 1985, the Rent Plus housing program name changed to the Overseas Housing Allowance or OHA.⁴⁵ CONUS units, on the other hand, fell under the VHA, better known today as BAH. DOD’s intentions for separating Alaska and Hawaii from other CONUS units were higher housing costs, geographic remoteness, and arguably low housing vacancy rates in Hawaii. Those favoring retention of the Rent Plus housing allowance program argued a change to the VHA program would cause increased family hardships, result in a decrease in extensions of tours, and attribute to a sharp increase in the number of moves.⁴⁶ However, not everyone agreed nor could DOD validate these claims. Some members of the Hawaii delegation felt the Rent Plus program was driving up local housing costs on Oahu while Service members preferred the opportunity to have additional nontaxable disposable income.⁴⁷ Regardless, no one could debate a review was warranted.

For five years, leading up to the 1986 Defense Authorization Act, the military housing allowance program garnished high Congressional interest due to increasing cost of the VHA program for Service members in CONUS. In 1984, DOD/IG conducted an audit of the Rent Plus housing allowance program in the two states. The conclusions of the audit uncovered 1) an inappropriate calculation methodology resulted in excess program costs of \$25.2 million, 2) specific provisions of Rent Plus regulations resulted in higher program costs of at least \$1.4 million, and 3) inadequate internal controls resulted in estimated overpayments of about \$0.08 million in Alaska and \$1.4 million in Hawaii.⁴⁸ The DOD/IG audit findings reveal many similarities to the audits and internal reviews conducted for Guam's OHA program.

Clearly consistent between the DOD/IG Rent Plus audit and 2012 AFAA findings are problems with controls and program administration. First, inadequate internal controls attributed to the estimated overpayments mentioned earlier. Second, program administration suffered because of inadequate internal controls. Inadequate documentation to support the Rent Plus housing allowance payments caused the \$1.48 million combined. Further, "While the DOD/IG was conducting its review, it referred cases with unresolved discrepancies to service investigators."⁴⁹ The findings surrounding the two separate but distinct audits reveal replications of the housing allowance problems of Alaska and Hawaii yet again nearly thirty years later on Guam. Coincidentally, Guam boasts higher housing costs and geographic remoteness, all ingredients for the same recipe Alaska and Hawaii shared in the 1980s.

Rent Plus Versus Variable Housing Allowance

Changing from the Rent Plus housing allowance to the Variable Housing Allowance in Alaska and Hawaii meant overall cost savings for the government. The Rent Plus program was estimated to be approximately \$115 million in 1985 alone using figures only from the member

concentrated areas of Honolulu, Anchorage, and Fairbanks.⁵⁰ “The DOD/IG estimated that, for fiscal years 1983 and 1984, \$52 million could have been saved -- \$24 million in fiscal 1983 and \$28 million in 1984 – had Hawaii been under VHA.”⁵¹ Ironically, around this same period a DOD study group found that approximately \$21.4 million could have been saved by transferring Alaska and Hawaii to the VHA in 1985.⁵² Although it would be more expensive to place Alaska under VHA the net savings could be realized by transferring Hawaii to VHA.⁵³ The estimated substantial cost savings alone meant the Rent Plus housing program needed replacement and alternatives explored.

While cost savings was primarily driving the change, one cannot ignore the other factors present during this period. The Rent Plus program offered several key advantages and disadvantages in Alaska and Hawaii worthy of review. The Rent Plus program allowed members to compete for housing in a tight market and thus live in adequate housing, enhanced readiness and morale, encouraged accompanied tours, increased extensions, lowered associated PCS costs, and reduced members’ out-of-pocket costs.⁵⁴ However, the program had high administrative and budgetary costs, was susceptible to fraud and abuse, and lacked cost-containment incentives.⁵⁵ Along with costs, the disadvantages far outweighed the advantages of retaining the Rent Plus housing allowance program in both states.

SECTION 4: METHODOLOGY/EVALUATION RESEARCH CRITERIA

Rate Setting Methodology

BAH locality rates for the island need to be formulated. The process used to determine Guam BAH rates involves estimating housing costs for each of 23 pay grades, reviews on similarly priced military housing in CONUS, and data on renters' costs and owners' rental equivalents (median rent and average utilities). Enlisted grades E1 to E9, warrant officer grades WO1 to WO5, officers with previous enlisted experience O1E to O3E, and officer grades O1 to O6 were used in this analysis.⁵⁶ In some cases, little or no data exists to produce reliable results for housing estimates. As a result, operations research procedures applied in setting BAH rates such as geographical-proximity and pay grade smoothing were explored for use in estimating housing costs under the BAH program.

"Geographical-proximity smoothing is performed to ensure that enough data is used to make reliable estimates and that rates are consistent for adjacent areas."⁵⁷ In this case, the closest CONUS duty station in the adjacent area to Guam is Hawaii. Both locations are classified as remote with high housing cost estimates, therefore, the housing data from this area can be a suitable baseline from which to compare.

In addition to geographical-proximity, pay grade smooth is another procedure designed to produce more accurate estimates of local housing costs. Essentially, "The pay grade smoothing is performed to prevent a lower-graded member from receiving a larger total allowance than a higher-graded member."⁵⁸ With the current OHA program, potentially a lower-graded member can receive more OHA than a higher-graded member if his/her OHA is maximized. Since OHA is a cost based reimbursement allowance, and although a graduated rank based scale does exist

for this housing allowance, the actual allowance may not necessarily increase with rank. The goal of this procedure is to remove the inversion in housing costs that may exist.⁵⁹

Initially, this research set out to create BAH rates for Guam using the DTMO primer. However, employing a contractor to collect the annual data from both spring and summer was unrealistic given the parameters of this review. In addition, the anchor points needed to compute rental costs were found to be insufficient. Large variances were noted during consultation with real estate professionals in Guam to confirm market rental prices and obtain additional data.

To illustrate, local realtors advised the average rental prices on Guam are unlike any in CONUS. Three rental categories exist for the local market - low, medium, and high. Locals to include Section 8 recipients make up the low category and pay an average rent of \$800-\$1200 per month.⁶⁰ Military members comprise the medium category, averaging a monthly rental ranging from \$1980-\$3000 per month.⁶¹ Executives make up the high category, averaging a monthly rental of \$4000-\$5000 per month.⁶² It was determined using the medium category to fix anchor points would skew the data since it is known practice that landlords are legally allowed to price discriminate by income and tend to match the rental prices to the authorized OHA allowances for the various grades as opposed to true market values for properties.⁶³ Given the above, comparable housing costs using Fair Market Rents published annually by the Department of Housing and Urban Development using Honolulu, Hawaii was determined to be the best comparison to Guam.⁶⁴

In addition to local realtors, utilizing the local command expertise on Guam and Hawaii in the data collection process was necessary. Functional leadership at the various installations were contacted to allow them the opportunity to contribute to the BAH data collection effort.

The expertise, knowledge, and sound judgement of these individuals are important, and the information they provide significant to this research effort.

Background Data of Contributors

Roughly 12,000 military members and their families are assigned to Guam. The contributions of the Service members, civilian personnel and their families to the island community and local economy are enormous. To illustrate, in fiscal year 2014, the latest Economic Impact Analysis Report disclosed Team Andersen, comprised of more than 6,700 military members, civilians, and their families assigned to Andersen Air Force Base (AAFB), Guam, alone contributed more than \$646 million to Guam and neighboring islands in the Northern Mariana Islands, with an estimated \$49.2 million spent annually for rent and utilities.⁶⁵ The active component represents the bulk of these figures while the Guard and Reserve make up the remainder.

Joint Region Marianas includes primarily AAFB in the north, Naval Base Guam (NBG) in the south, and all other Service partners in between. In 2012, Personnel Support Detachment, Guam, accounting for NBG, had 1,001 families drawing a housing allowance of approximately \$2.84 billion.⁶⁶ Currently, 2,601 sailors are assigned to Guam.⁶⁷ Average housing costs run \$2,841 per month per member residing in the local community. Data for OHA versus family housing versus barracks was unavailable at time of research.

On AAFB, approximately 1,300 members assigned to this base are receiving OHA.⁶⁸ Of the 1,300, 500 members are receiving the single rate while the remaining 800 members are receiving the with dependent rate. The average single rate for rent is \$2,200, costing roughly \$1.1 million per year.⁶⁹ The average with dependent rate for rent is \$2,450 costing \$1.9 million per year.⁷⁰ With rent estimated at \$3 million and utilities at \$1.1 million per month, the

combined estimated housing program costs DOD \$49.2 million per annum for the active Air Force on Guam.⁷¹

In addition to the active duty personnel assigned to Guam, the Guard and Reserve combined total roughly 2,477 members as of 2016.⁷² The Guam National Guard has approximately 1,438 soldiers and airmen assigned to the organization.⁷³ The U.S. Army, Coast Guard, Air Force, and Naval Reserves combined total 1,039 members assigned to Guam.⁷⁴ A small percentage (typically less than 10 percent) of the Guard and Reserve forces are Active Guard Reserves (AGRs) assigned to Guam. AGRs, like their active counterparts, draw an OHA allowance regularly if authorized. Average housing costs are difficult to measure accurately since members will only be eligible for OHA if activated for 31 days or more or contingency operations. The only exception to this rule will be the AGR population.

Criteria for an Effective OCONUS Housing Program on Guam

DOD considers that housing allowances are part of a Service member's basic compensation and that they should therefore increase with rank and responsibility. One must recognize that there are many variables that can affect a military member's decision to stay or leave the service, pay and benefits being only one of them. Isolating the effect that changes in one variable would have on another will aid in this analysis. The current OHA program along with the proposed BAH program will be measured against four criteria. These criteria include retention, cost effectiveness, ease of program administration, and equity for recipients.

SECTION 5: ANALYSIS OF CURRENT OHA PROGRAM ON GUAM

Some Service members, housing officials, and local realtors may argue the cost-based OHA program is a better fit for Guam considering its high cost of living, steep rental costs, and escalating mortgage prices. Unfortunately, many other interested parties disagree and desire for a reasonable, unproblematic, equitable housing compensation afforded Service members residing in the CONUS. Guam's current OHA program is evaluated below against the four criteria mentioned above.

Impact on Retention

Retaining qualified military personnel is necessary to preserving morale and unit readiness, while also eliminating the costs associated with training replacement personnel in essential skills. Studies have shown that financial incentives and pay are two of the leading factors in achieving this goal and maintaining an optimal force. Of the two, housing is by far the most important.⁷⁵

Having not just adequate, but also comfortable housing plays a greater role in the life of a Service member than that of a civilian. A recent RAND article cited, "Most U.S. military Service members would be unwilling to voluntarily extend overseas tours of duty, but some might agree to do so if offered financial incentives."⁷⁶ Whether one categorizes OHA as a financial incentive comes down to a matter of perspective. To an AC member who receives either government quarters or OHA, he/she may be indifferent. To an RC member, who may be ineligible for government quarters or OHA, perhaps the answer is yes. The OHA allowance, as seen in Figure 1, can be a significant portion of pay and allowances for any Service member.

Service members eligible for OHA are generally content. Contentment comes from not having to incur out-of-pocket expenses to cover monthly rent or mortgage payments. "At NBG

alone, roughly 40 percent of Service members living off base pay rent within \$5 of their maximum monthly OHA allowances.”⁷⁷ In addition to the monthly housing allowance, Service members are entitled to funds for utilities. The utility allowance, like the monthly rental cost, is generally more than enough to cover the expenses. Unlike OHA, the utility allowance is a flat rate and does not require proof for reimbursement. As a result, members have the potential to profit from OHA if they conserve on their utility costs.

However, this research must point out that while financial incentives are important to both an AC and RC member, this criterion alone is not a deciding factor. The earlier RAND research also noted, “While there were some preferences based on country locations, it was otherwise difficult to identify which Service members would be amenable to extending tours without directly asking them.”⁷⁸ Particularly for RC members since they enjoy the benefit of not having to relocate every few years.

Impact on Cost Effectiveness

Cost effectiveness is a form of economic analysis. In this analysis, the research is focused on opportunities to reduce the government’s costs significantly in terms of actual dollars spent on rent and utilities as well as manpower used to facilitate the housing programs and allowances. With an estimated annual cost of over \$7.76 billion spent on rent and utilities in 2014, the OHA program on Guam is steep.⁷⁹ Costs, in this analysis, require examination from two angles, dollars and manpower.

First, from a dollars perspective the government may spend much more money to fund OHA versus a BAH program. To illustrate, using the pseudo BAH rates introduced earlier, one can see from the figures below that BAH at almost all ranks is less expensive to operate.

Negative figures are evident in almost ranks, with or without dependent, with the exception of senior-grade members.

COMPARISON OF OHA TO BAH FOR GUAM

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	MAXIMUM ALLOWABLE OHA (with dependent)	MAXIMUM ALLOWABLE BAH (with dependent)	DIFFERENCE
O6	\$ 3,819.00	\$ 4,122.00	\$ 303.00
O5	\$ 3,719.00	\$ 4,083.00	\$ 364.00
O4	\$ 3,519.00	\$ 3,786.00	\$ 267.00
O3	\$ 3,369.00	\$ 3,375.00	\$ 6.00
O2	\$ 3,369.00	\$ 2,901.00	\$ (468.00)
O1	\$ 3,369.00	\$ 2,706.00	\$ (663.00)
O3E	\$ 3,519.00	\$ 3,567.00	\$ 48.00
O2E	\$ 3,369.00	\$ 3,351.00	\$ (18.00)
O1E	\$ 3,369.00	\$ 3,111.00	\$ (258.00)
WO5	\$ 3,719.00	\$ 3,720.00	\$ 1.00
WO4	\$ 3,519.00	\$ 3,537.00	\$ 18.00
WO3	\$ 3,519.00	\$ 3,384.00	\$ (135.00)
WO2	\$ 3,369.00	\$ 3,153.00	\$ (216.00)
WO1	\$ 3,369.00	\$ 2,910.00	\$ (459.00)
E9	\$ 3,519.00	\$ 3,495.00	\$ (24.00)
E8	\$ 3,369.00	\$ 3,264.00	\$ (105.00)
E7	\$ 3,369.00	\$ 3,075.00	\$ (294.00)
E6	\$ 3,369.00	\$ 2,904.00	\$ (465.00)
E5	\$ 3,369.00	\$ 2,679.00	\$ (690.00)
E4	\$ 3,194.00	\$ 2,613.00	\$ (581.00)
E3/E2/E1	\$ 3,194.00	\$ 2,613.00	\$ (581.00)

Figure 8. COMPARISON OF OHA TO BAH FOR GUAM (with dependent)

COMPARISON OF OHA TO BAH FOR GUAM

(US DOLLAR / MONTH)

current as of 1 Mar 2016

RANK	MAXIMUM ALLOWABLE OHA (without dependent)	MAXIMUM ALLOWABLE BAH (without dependent)	DIFFERENCE
O6	\$ 3,299.25	\$ 3,378.00	\$ 78.75
O5	\$ 3,209.25	\$ 3,198.00	\$ (11.25)
O4	\$ 3,029.25	\$ 3,090.00	\$ 60.75
O3	\$ 3,894.25	\$ 2,820.00	\$ (1,074.25)
O2	\$ 2,894.25	\$ 2,658.00	\$ (236.25)
O1	\$ 2,894.25	\$ 2,550.00	\$ (344.25)
O3E	\$ 3,029.25	\$ 2,901.00	\$ (128.25)
O2E	\$ 2,894.25	\$ 2,778.00	\$ (116.25)
O1E	\$ 2,894.25	\$ 2,679.00	\$ (215.25)
WO5	\$ 3,209.25	\$ 3,117.00	\$ (92.25)
WO4	\$ 3,029.25	\$ 2,943.00	\$ (86.25)
WO3	\$ 3,029.25	\$ 2,802.00	\$ (227.25)
WO2	\$ 2,894.25	\$ 2,721.00	\$ (173.25)
WO1	\$ 2,894.25	\$ 2,592.00	\$ (302.25)
E9	\$ 3,029.25	\$ 2,790.00	\$ (239.25)
E8	\$ 2,894.25	\$ 2,724.00	\$ (170.25)
E7	\$ 2,894.25	\$ 2,619.00	\$ (275.25)
E6	\$ 2,894.25	\$ 2,556.00	\$ (338.25)
E5	\$ 2,894.25	\$ 2,349.00	\$ (545.25)
E4	\$ 2,736.75	\$ 1,959.00	\$ (777.75)
E3/E2/E1	\$ 2,736.75	\$ 1,959.00	\$ (777.75)

Figure 9. COMPARISON OF OHA TO BAH FOR GUAM (without dependent)

However, figures alone fail to represent all the other hidden costs to running the housing allowance program. Base Housing Officials are required to manage the housing program, which in essence means more personnel to receive, certify, and audit documents for the housing allowance. Financial managers are also incorporated into this equation once the documents are received from Base Housing. Compared to BAH, processing of OHA is taxing and time consuming to personnel involved in the chain. This is especially true of RC units, who take on the Base Housing Officer functions as an additional duty and financial managers who have to compute manual daily rates for each OHA packet processed. For some, with members going on

and off duty all year long, this can be extremely cumbersome and subject to human error.

Impact on Ease of Administration

Closely linked to cost effectiveness is ease of administration. Managing the OHA program on Guam is far from simple. The processing checklist requires many items from both the Service member as well as those on the receiving end of the chain making the administration tough for all involved. Two areas to highlight relative to this discussion are documentation and systems.

With regards to documentation, the burden of proof rests on the Service member to collect, complete, and submit all required documents for approval to the Base Housing Office. This process can take a few weeks as the documents flow through the correct sequence for certification, review, and ultimately approval. The process can get even more difficult when members decide to change residences or start and stop activation orders forcing the members to participate in the same manner once again. In some cases, as in the RC units, starting and stopping orders can happen several times a year when members go on and off activation status. Neither the AC nor RC functional offices maintain adequate staffing levels to take on the additional work brought on by the constant changes. As a result, these tasks can be a huge burden on existing resources to manage this program properly with adequate quality reviews and checks.

Along with documentation, the financial pay systems present a concern. The pay system currently requires financial customer service technicians to complete extra steps in the payment process. Extra steps may attribute to more errors, present greater risks, and require more control activities to monitor the process. To illustrate, all Guard units utilize a financial pay system called Defense Military Office (DMO) RC. Oddly, the design of DMO RC was for CONUS

units authorized BAH making it a poor fit for OCONUS RC units paying OHA. Using DMO RC for OCONUS units requires manual entries for OHA and changes to member's dependency status to turn off BAH II (if Service members do not have a valid lease or mortgage). These extra steps are necessary to force the financial pay system to override the automatic BAH II entitlements and ensure members are correctly paid.

Impact on Equity for Recipients

Closely linked to retention is parity in allowances amongst all ranks. Equity for recipients requires fair distribution of benefits among Service members and their families. Housing allowances are not at the discretion of each unit or state. These allowances, one would assume, are entitlements authorized to all Service members. Unfortunately, the language as it appears in the JTR suggests that this is a discretionary allowance only for those eligible. Of the four criteria, equity for recipients scores lowest for OHA. Essentially, with OHA, equity for recipients is the most obvious unfair category. When calculated on paper and laid out in plain form, data reveals discrepancies between allowance distributions for those with/without mortgage or lease documents, especially for the Guard and Reserve, where the length of their tours and trainings can further define additional distinctions. For the AC, there is the assumption members will be provided housing whether it is government quarters or an OHA allowance. In the case of an RC member, government quarters are not an option. Without any proof of housing costs, Service members have the potential to receive nothing. See Figure 6 below highlighting no OHA and BAH authorized for a Service member on long tour and without a valid lease or mortgage.

OHA for Guam (no housing documents)

ENTITLEMENTS		
Long Tour (31 days or more or contingency orders; no valid lease or mortgage)		
TYPE		AMOUNT
Base Pay	\$	1,398.90
BAS	\$	184.14
BAH Type II	\$	-
OHA	\$	-
COLA	\$	425.70
TOTAL	\$	2,008.74

* Figure 6. Represents E-5 with dependent, six years Time in Service, and OHA ineligible

An interesting finding during the course of this research was the unusually large number of RC members ineligible for OHA when activated. To illustrate, in a recently queried deployment of 75 members of the Guard, one out of every four Airmen were not authorized OHA. A number of reasons for this high number of ineligible members include incomplete documentation, living with parents and/or relatives who own the dwelling, residing on properties deeded as a gift to the member, etc. This ratio was surprisingly high. Leadership was unhappy about the huge variances in pay amongst the ranks. Also disturbing were the inequities between the deployed RC Service members assigned to Guam and other Service members with a CONUS home of record. Service members were comparing LESs in-theater and were trying to make sense of the incomprehensible discrepancies between the two, which in some cases was significant in terms of potential housing dollars given to members assigned to CONUS.

SECTION 6: ANALYSIS OF A BAH IMPLEMENTATION ON GUAM

Expected Impact to Retention

With Guam's unique housing market and lack of normal market pricing for housing, it is very difficult to predict accurately how changing to BAH will affect retention. Drawing from the information in the OHA to BAH comparison charts in Figures 8 and 9, a logical conclusion is implementing BAH means less housing allowance for most members. In addition, lower utility allowances and smaller BAH housing standards are to be expected.⁸⁰ In earlier studies, DOD underestimated the negative effects an alternative would have on force retention, saying that they used the oversimplified assumption that so long as the total number of compensation dollars in a pay grade is unchanged, the alternative would have no impact on retention.⁸¹ In this case, pay grades will change and one can only assume the masses may be dissatisfied. Happiness comes from not having out-of-pocket expenses and larger rental sized units than the BAH standards.

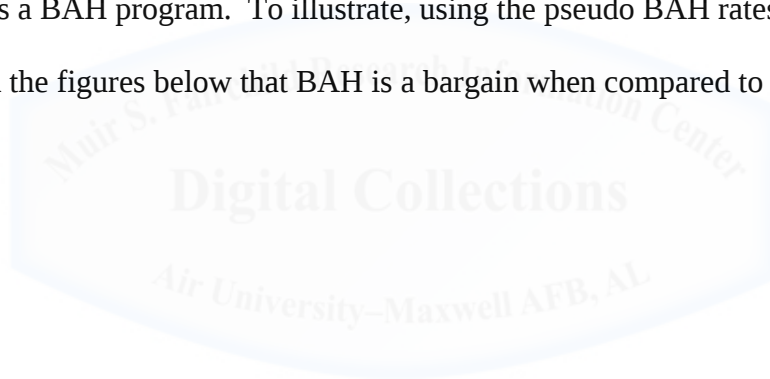
Members currently maximizing their OHA allowances will likely have to incur greater out-of-pocket expenses to cover rent, mortgage payments, and utilities. Conversely, those once ineligible for OHA will be extremely content. They stand to gain at minimum in upwards of \$2,000 per month. This financial gain especially benefits members of the Guard and Reserve. Despite the additional funds for the RC member, one can anticipate no change to their current housing accommodations; hence, the additional funds mean more disposable income for the members.

With the military dominating the housing market on Guam, it would be interesting to see how negatively BAH rates will affect members' housing standards, especially for the AC. In 2012, NBG cited "Currently, 83 percent of E1 to E5 Service members with dependents at NBG are renting larger units with no out-of-pocket expenses."⁸² The higher OHA rates now allow

Service members to reside in the better parts of the island with nicer, larger accommodations and ideal locations. A lower BAH rate may mean perhaps less than adequate, smaller units in more remote areas. Being so geographically isolated, it may be safe to say Service members, particularly the AC, will be dissatisfied with the housing options afforded them ultimately affecting quality of life and morale.

Expected Impact to Cost Effectiveness

Generally, BAH in comparison to OHA remains more cost effective for the DOD. Applying the same two comparison points for OHA, dollars and manpower needs to be reviewed. First, from a dollars perspective, the government may spend much more money to fund OHA versus a BAH program. To illustrate, using the pseudo BAH rates introduced earlier, one can see from the figures below that BAH is a bargain when compared to OHA.



BAH for Hawaii (long tour)

ENTITLEMENTS		
Long Tour (31 days or more or contingency orders)		
TYPE		AMOUNT
Base Pay	\$	1,583.10
BAS	\$	184.14
BAH	\$	1,497.00
COLA	\$	345.00
TOTAL*	\$	3,609.24

* Figure 10. Represents E-5 with dependent, nineteen years Time in Service (TIS), full BAH (BAH rated for Honolulu, Hawaii)

BAH for Hawaii (short tour)

ENTITLEMENTS		
Short tour (30 days or less)		
TYPE		AMOUNT
Base Pay	\$	93.26
BAS	\$	12.28
BAH Type II	\$	30.65
COLA	\$	23.27
TOTAL*	\$	159.46

* Figure 11. Represents E-5 with dependent, six years TIS, one day of Annual Training, BAH Type II authorized (BAH rated for Honolulu, Hawaii)

With regards to dollars, there are two factors to consider in examining the impact of a BAH implementation. First, across the board DOD can be expected to save thousands of dollars in housing allowances spent on rent and utilities. To illustrate, using AAFB figures of 800 members with dependent, assuming E-5 for the entire population for this example, projected DOD cost savings is \$552,000. This figure is substantial considering this example only used figures from AAFB base alone. See below.

Active Duty Population (with dependent) x Maximum OHA* = Projected Annual Costs

800 \$3,369 \$2,695,200

Active Duty Population (with dependent) x Maximum BAH* = Projected Annual Costs

800 \$2,679 \$2,143,200

OHA Projected Annual Costs:	\$2,695,200
Less BAH Projected Annual Costs:	<u>\$2,143,200</u>
Projected DOD Cost Savings:	\$552,000

*See Figure 8.

At an annual costs savings of \$690 per member (\$552,000 divided by 800 members), one can make several other assumptions: With a total military population on Guam of roughly 6,378 (combined total of 2,601 sailors, 1,300 airmen, and 2,477 Guard and Reserve) the potential DOD cost savings using BAH for the entire military population is in excess of \$4,400,820. Numbers can be much larger considering this analysis generically applies E-5 figures to this sample.

While DOD can expect significant gains from the savings, one cannot overlook the potential costs of the Guard and Reserve, which is difficult to predict considering the constant switching of status. In the earlier example of 75 deployed RC members, one out of every four Airmen was not receiving either OHA or BAH. To illustrate, given a Guard and Reserve combined membership of 2,477, one will assume 25 percent of this total represents one out of four members. This number equals 619 members (2,477 multiplied by 25 percent). Using, the number of 619, again assuming an E-5 with dependent for the entire population for this example, projected DOD costs are \$1,658,301. Costs can be much larger considering this analysis generically applies E-5 figures to this sample.

<u>Reserve Component Population (with dependent) x</u>	<u>Maximum BAH*</u>	<u>= Projected Annual Costs</u>
619	\$2,679	\$1,658,301

*See Figure 8.

Unlike OHA, less manpower is needed to manage a BAH program. Less manpower directly correlates to fewer expenses, time, and resources to operate such a housing program on Guam. The savings mean greater efficiency and effectiveness. This is especially important in an era where less is the norm and streamlined operations are preferred.

Expected Impact to Ease of Administration

With regards to ease of program administration, BAH offers simplicity. The Base Housing Office will take on a new role and look. Personnel will no longer be necessary to receive, certify, and audit documents for the housing allowance. Financial managers, eliminating the intermediary, will assume this role. The housing process changes from 1) Service member to Base Housing to Finance to 2) Service Member to Finance. Real savings comes in the form of less paperwork, time reduced to process allowances, and less manpower in program administration. These savings can be redirected to the needs of the other Services.

Reviewing the BAH program in Hawaii, research revealed the Base Housing Office is now operating under the name Hickam Communities, a land lease community. At first glance, visually the entire operation looked much like a real estate company. Customer service agents were in uniform extending greetings and offers to assist newly arrived Service members, much like a private company. At first glance, this operation did not look or feel like a typical overseas Base Housing Office similar to the one on Guam. The housing process in Hawaii requires the following: a Hickam Communities application with fee, rental qualification form, security deposit, current orders, current LES, and one month current income verification.⁸³ Again, all the semblances of a private rental property company as opposed to a Base Housing Office. This same model can work on Guam should BAH be considered.

Expected Impact to Equity for Recipients

Equally weighted against cost effectiveness is equity for recipients as one analyzes BAH. BAH offers the promise of fair distribution of benefits among Service members and their families. Of the four criteria, equity for recipients rates high for BAH. The charts are leveled to

align properly with rank making BAH very attractive, especially to members currently ineligible for OHA. See comparison in Figures 6 and 10 below.

OHA for Guam (no housing documents)		
ENTITLEMENTS		
Long Tour (31 days or more or contingency orders; no valid lease or mortgage)		
TYPE		AMOUNT
Base Pay	\$	1,398.90
BAS	\$	184.14
BAH Type II	\$	-
OHA	\$	-
COLA	\$	425.70
TOTAL	\$	2,008.74

* Figure 6. Represents E-5 with dependent, six years Time in Service, and OHA ineligible

BAH for Hawaii (no housing documents)		
ENTITLEMENTS		
Long Tour (31 days or more or contingency orders)		
TYPE		AMOUNT
Base Pay	\$	1,583.10
BAS	\$	184.14
BAH	\$	1,497.00
COLA	\$	345.00
TOTAL*	\$	3,609.24

* Figure 10. Represents E-5 with dependent, nineteen years Time in Service (TIS), full BAH (BAH rated for Honolulu, Hawaii)

Along with the obvious benefit of more funds, BAH also offer other advantages: 1) ensures a more accurate correlation between allowance payments and rental prices, and 2) individual rate protection. Individual rate protection prevents decreases in housing allowances as long as the status of the Service member remains unchanged. On the flip side, BAH also has expected downfalls for its recipients. Negatives for BAH are: 1) gradual potential out of pocket expenses (two percent in 2016, three percent in 2017, four percent in 2018, and five percent in 2019) and 2) by design BAH does not consider mortgage costs. For Service members already

maximizing either their rental agreements or mortgages, BAH appears far less attractive and less equitable.



SECTION 7: CONCLUSION

Recommendations

With the problems currently plaguing OHA, the desired end state is a new way forward with the most favorable housing allowance solution for Guam. A quick review of the five W's remains crucial at this stage. The elements of Who, (the Service members, civilians, and their families assigned to Guam and eligible for housing allowances); What, (finding the most feasible housing allowance solution given the four criteria of retention, cost effectiveness, ease of program administration, and equity for recipients); When, (happens when legal, proper authority is granted and directed); When, (also includes the present as budgetary constraints means one must now operate with less); Where, (Guam); Where, (can also potentially include other U.S. territories and possessions with similar conditions); Lastly, why (to provide our Service members and their family fair military compensation given the sacrifices made for their Service and country) merit review. With the five W's covered, also important to the study are planning assumptions, a BAH versus OHA assessment, and Course of Action (COA) selection.

Having determined the facts of the situation, the next step in analysis activities is generating planning assumptions. Assumptions provide a deduction about the current situation or future course of events.⁸⁴ The assumptions necessary for planning a BAH solution are listed as follows:

1. Military pay is relatively stable and growing over a military career and over time.
2. Higher graded personnel generally have increased job responsibilities and, therefore, should be compensated more for housing costs than lower-graded personnel.
3. Outside of contingency operations and when eligible, AC members not authorized OHA are provided government quarters for living whereas RC members not authorized OHA are not provided government quarters.
4. As DOD evolves, adjusting the balance between the Active and Reserve Components will be critical; as the RCs will seek to recruit personnel with critical skill sets, retain highly skilled personnel, and maintain complementary capabilities with the AC.⁸⁵

5. A bigger or more costly residence than the medium, will produce a larger out-of-pocket expense for the member.

These assumptions are valid, logical, and realistic. They are also essential to continuing the analysis and planning of BAH as a proposed housing solution.

There are two possible COAs to consider – 1) continue to keep the current OHA program or 2) consider a BAH program solution. The COAs were measured and evaluated against the four criteria mentioned above. Using the evaluation criteria, a COA analysis and comparison of OHA (COA 1) to BAH (COA 2) was conducted. This analysis allows identification of the COA with the greatest probability of success. See Figure 12, COA Decision Matrix below. Note, a superior rating to criteria earns a five (5), a three (3) is average, and a poor rates as zero (0).

COA Decision Matrix		
	<u>Overseas Housing Allowance (COA 1)</u>	<u>Basic Allowance for Housing (COA 2)</u>
Retention	5	3
Cost Effectiveness	3	5
Ease of Administration	3	5
Equity for Recipients	<u>3</u>	<u>5</u>
TOTAL	14	18

Figure 12. COA Decision Matrix

First, under retention, OHA triumphs. Unlike BAH, OHA appeases the majority of Service members already receiving the allowance. Less out-of-pocket costs, larger units, and ultimately improved quality of life and morale comes with OHA. With OHA being a significant portion of pay, this factor alone cannot be overlooked.

Second, concerning cost effectiveness, undoubtedly BAH presents the greatest cost savings to the DOD. Real cost savings as it relates to dollars and manning come with BAH. With a price tag of roughly \$7.76 billion, OHA is expensive for the tax payers. While BAH saves DOD costs in housing, training and relocating Service members to replace those dissatisfied with the Service and leave may cause problems with retention. Retention as it relates to costs makes OHA reasonably priced.

Third, in the ease of administration category, BAH fared best. OHA is paper intensive and lengthy. BAH takes the middle man out of the process, requires less time, and gives the Service member the option to choose how they want to spend their housing dollars.

Lastly, with regards to equity for recipients, BAH is the top pick. BAH meets the basic intent of the law and reinforces fairness across the board. Conversely, OHA only takes care of those eligible leaving others unhappy.

Given the COA analysis, COA 2 is the best housing solution for Guam. BAH offers cost appeal, ease of administration, and equity for recipients. Conversely, OHA is good for retention for the majority. With little out-of-pocket costs to cover housing, OHA promotes high morale, general well-being, and happiness. Despite the benefits, OHA is the less attractive of the two COAs for Guam. With a total score of 18 based on the COA Decision Matrix above BAH wins hands down over OHA.

In conclusion, based on the findings BAH is the most attractive option to consider as a new way forward for Guam's housing allowance program. Modern times require institutional reform that demands the DOD reduce costs and slow the growth in military pay and compensation. Without the luxury of time and resources, the demands for reform may not be warmly welcomed and received. Balancing priorities, innovation, and buy-in from all concerned

will be key to making these changes happen. As General Dempsey once said, “When we commit America’s sons and daughters into combat, we must ensure that they are the best-trained, best-equipped, and best-led fighting force on the planet.”⁸⁶ A change to BAH for Guam will be a small step in the right direction enabling resources to be redirected to modernize and support our warfighting efforts.



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