SUBJECT: DoD Procedures for Implementing Public-Private Ventures (PPVs) for Morale, Welfare and Recreation (MWR), and Armed Services Exchange Category C Revenue-Generating Activities

(d) DoD Instruction 1015.10, "Programs for Military Morale, Welfare, and Recreation (MWR)," November 3, 1995
(e) through (j), see enclosure 1

1. REISSUANCE AND PURPOSE

This Instruction reissues reference (a), implements DoD policy contained in reference (b), assigns responsibilities and prescribes procedures under reference (c) for using Public-Private Ventures (PPVs) agreements to provide Program Group I Morale, Welfare and Recreation (MWR) Category C Revenue-Generating Activities and Program Group II Armed Services Exchange programs.

2. APPLICABILITY

This Instruction applies to:
2.1. The Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, and the DoD Field Activities, and all other organizational entities in the Department of Defense (hereafter referred to collectively as "the DoD Components").

2.2. The Commissioned Corps of the Public Health Service and the National Oceanic and Atmospheric Administration under the agreements with the Departments of Health and Human Services and Commerce.

2.3. Nonappropriated fund instrumentality (NAFI) management of resources, programs and activities that support the MWR, Category C lodging, and Armed Services Exchange missions as defined in DoD Instructions 1015.10 and 1330.21, and DoD Directive 1015.11 (references (d) through (f)). Commissaries, military exchange merchandise retail stores, package stores, additions to existing facilities, ancillary supporting facilities, and military installations located overseas are exempt from this requirement, but are not precluded from executing PPV agreements.

3. DEFINITIONS

3.1. Addition. The modification of an existing facility that results in an overall increase in square footage or gross volume without changing the original functional purpose of the facility.

3.2. Ancillary Supporting Facility. Required infrastructure that supplements a Category C facility, but does not generate revenue by itself. Examples include golf course maintenance facilities, irrigation systems, golf cart paths, recreational vehicle park bathhouses, and exchange store parking lots.

3.3. Military Exchange Merchandise Retail Store. A retail facility (main store) with separate departments for various lines of apparel, such as a men's department, a women's department, a children's department, and a linens department. The store is primarily engaged in retailing a wide range of new products with no single merchandise line predominating. Products may include apparel, furniture, appliances and home furnishings; and selected additional items, such as paint, hardware, toiletries, cosmetics, electronic equipment, jewelry, toys, and sporting goods.

3.4. Overseas. Areas other than the 50 United States and the District of Columbia.
3.5. **Public-Private Venture (PPV) Agreement.** An agreement between a DoD NAFI and a non-Federal entity whereby the non-Federal entity provides goods, services, or facilities to authorized MWR and exchange patrons. The non-Federal entity may, through the PPV, provide a portion or all of the financing, design, construction, equipment, staffing and operation of a program for goods, services, or facilities.

4. **POLICY**

4.1. It is DoD policy to consider opportunities to partner with the private sector to enhance MWR Category C, and Armed Services Exchange business activities for authorized customers of such activities and exchange services. PPV agreements shall be considered as an alternative source to meet capital requirements in excess of $1 million for Category C facilities supporting MWR, recreational and temporary lodging, and Armed Services Exchange programs that are authorized NAF construction in accordance with reference (c).

4.2. PPV agreements may be used to provide only the services and activities that are the mission of the MWR, Category C lodging, and Armed Services Exchange programs, as defined in references (d) through (f).

4.3. MWR, Category C lodging, and Armed Services Exchange programs provided through PPV agreements shall conform to patron restrictions in references (d) through (f).

4.4. Personal services contracts are not permitted in accordance with DoD Directive 4105.67, reference (g).

4.5. PPV agreements that adversely affect or displace NAF employees shall provide for those employees to have the first right of refusal for contractor employment openings for which they are qualified, if their employment would not violate post-Government employment conflict of interest standards.

5. **PROCEDURES**

5.1. Proposed NAF capital expenditures, as defined in reference (c), in excess of $1 million for Category C MWR, recreational and temporary lodging activities, and Armed Services Exchange programs shall be assessed to determine if a PPV agreement is a suitable alternative and to ensure that the benefit and the mission are not compromised. The assessment shall consider the effect of a PPV on authorized
patrons, the MWR program, the DoD mission, force protection, and the local community.

5.2. If a PPV alternative is suitable, the NAFI shall perform an economic analysis to determine whether a NAF capital expenditure or a PPV provides the best financial value. Capital budgeting techniques, such as net present value analysis and internal rate of return, shall be used to ensure that the NAF capital expenditure and the PPV alternative(s) are reasonably compared.

5.2.1. If the PPV option appears economically advantageous, the NAFI shall conduct a commercial viability analysis. The commercial viability analysis determines the PPV parameters and approach that are feasible in the commercial marketplace. The NAFI shall solicit information from potential offerors and provide opportunities for comment by the local community.

5.2.2. If the potential PPV is determined to be commercially viable and financially preferable, the NAFI shall then determine if an acceptable PPV agreement can be reached, and report the project in the annual commissary surcharge, NAF, and privately financed construction report in accordance with DoD Instruction 7700.18 (reference (h)).

5.3. PPV agreements resulting in privately financed construction projects shall be submitted for approval prior to contract award in accordance with reference (h).

5.4. PPV agreements shall conform to policies and procedures set forth in DoD Instruction 4105.71 (reference (i)). If facility ownership is not transferred to the Federal Government upon completion of construction, the agreement shall be evidenced by a lease to accompany the PPV agreement. If the PPV agreement includes a lease, the lease shall conform to 10 U.S.C. 2667 (reference (j)). The decision with respect to leasing Federal Government property shall be fully analyzed and documented.

5.5. PPV fees, commissions, or other payments required by the NAFI PPV agreement (other than real property rental payments) shall be deposited into NAF accounts.

5.6. The written approval of the Principal Deputy Under Secretary of Defense for Personnel and Readiness is required before a NAFI executes a PPV agreement that involves:

5.6.1. Total debt service or other loan guarantees, credit enhancement, or occupancy guarantees resulting in potential Federal Government or NAFI liabilities in excess of $500,000.
5.6.2. An overseas fast food restaurant.

5.7. This Instruction creates no rights or remedies and may not be relied upon by any person, organization, or other entity to allege a denial of any rights or remedies in any administrative, judicial or other forum.

6. RESPONSIBILITIES

6.1. The Principal Deputy Under Secretary of Defense for Personnel and Readiness, under the Under Secretary of Defense for Personnel and Readiness, shall serve as the principal DoD focal point for all NAF PPV matters.

6.2. The Secretaries of the Military Departments shall implement policies and procedures consistent with this Instruction in their respective organizations.

7. EFFECTIVE DATE

This Instruction is effective immediately.

Charles S. Abell
Principal Deputy Under Secretary of Defense for Personnel and Readiness

Enclosures - 1
E1. References, continued
E1. ENCLOSURE 1

REFERENCES, continued

(e) DoD Instruction 1330.21, "Armed Services Exchange Regulations (ASER)," February 4, 2003
(h) DoD Instruction 7700.18, "Commissary Surcharge, Nonappropriated Fund (NAF), and Privately Financed Construction Reporting Procedures," July 16, 2003
(j) Section 2667 of title 10, United States Code