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From: Commander, Navy Installations Command

Subj: MORALE WELFARE AND RECREATION CENTRALLY MANAGED
NONAPPROPRIATED FUNDS CAPITAL INVESTMENT STRATEGY

Ref: (a) CNICINST 11010.7
(b) DODI 1015.10
(c) DoDI 1015.15
(d) OPNAVINST 11010.20J

Encl: (1) Morale Welfare and Recreation Centrally Managed Nonappropriated Funds Capital Investment Strategy

1. Commander, Navy Installations Command Fleet and Family Readiness (N9), is assigned the responsibility to establish a Centrally Managed Capital Investment strategy to provide direction, oversight, and overall management to ensure the continued ability of Morale, Welfare, and Recreation (MWR) to operate complete and usable facilities in the delivery of the MWR vision, mission, goals, and objectives as directed by reference (a).
2. References (b) and (c) identify the MWR Programs as a DoD Program Group I, Category A, B and C programs and funding authorizations. Reference (d) chapter 8 establishes project requirements for Nonappropriated Funds (NAF) facilities and authority levels.
3. Quality of Life operations and services contribute to military readiness and are essential to the effectiveness of Fleet Readiness. The MWR Capital Investment Program evaluates the potential use of self-generated NAF to repair, renovate, upgrade, and replace MWR facilities.
4. Enclosure (1) outlines the specific details of the MWR NAF Capital Investment Strategy.
5. My point of contact is Mr. Lonnie Kenney who may be reached at (843) 794-4243, or by e-mail to Lonnie.d.kenney.naf@us.navy.mil.



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MWR Centrally Managed NAF Capital Investment Strategy

The MWR Centrally Managed Capital Investment Program will establish a NAF recapitalization strategy to repair, renovate, repair by replacement, or new construction of MWR facilities to meet Department of Defense (DoD) standards.

1. General Outline

a. The objectives of the Capital Investment Strategy are: (1) deliver the MWR mission aligned to Fleet and Strategic Navy requirements, (2) identify and program funding resources to maintain adequate facilities at the lowest Total Ownership Cost to the Navy, (3) prioritize NAF investments in a balanced approach between facility conditions and improved revenue opportunities, (4) maintain all MWR assets Condition Index Category (CI) in Good or Fair rating, and (5) maintain a robust and relevant presence aligned to market driven customer demands.

b. All Regions shall establish and manage a master five-year Integrated Priority List (IPL) in compliance with the strategies identified in the Centrally Managed Program Capital Investment Strategy, budget guidance or additional investment policy memorandums issued by CNIC N9.

c. Projects not funded in a Program Year will be reprioritized in the Region five-year IPL.

d. The strategy embraces all opportunities for effective management, prioritization and programming. The program is developed and reliant upon significant Central investments, as well as aggressive investments within the Regions.

e. In addition to the straight-line prioritization established by the Figure of Merit, investment strategy may also target by program e.g., RV Parks, Program Category B or C, specific revenue generators, or Fact of life.

f. CNIC CIB Chair, may at any time, realign or fence funds in the best interest of the Navy for targeted investment in direct support of Fleet, TYCOM or Strategic Laydown requirements.

2. Fund Authorities

a. CATEGORY A – Mission Sustaining Programs. These programs are considered essential in meeting the organizational objectives of the Military Services. They promote the physical and mental well-being of the military member, a requirement that supports accomplishment of the basic military mission. Category A activities are entitled to the highest degree of APF support and virtually all expenses should be supported with APF. Programs in this category have virtually no capacity for the generation of NAF revenues. Programs includes Armed Force Entertainment, Motion Pictures (no cost), Physical fitness. Aquatic Training, Libraries, Installation Parks and Picnic areas, social recreation programs, Military Single Service Member Programs, and Recreation Centers.

Appropriated funds (APFs) are the fund source for Facility Sustainment, Restoration, and Modernization (FSRM) and Military Construction (MILCON) requirements.

MWR category "A" facilities that should normally be funded from APF for sustainment and restoration repairs to structural, mechanical, electrical, plumbing, building envelope, etc. or solely to correct accessibility, life, safety, or health deficiencies must have documented non-availability of APFs, as well as ASN (EI&E) waiver approval, to use NAF in lieu of APF, prior to commitment of NAF. References c and d apply.

Category A assets will be scored utilizing the Figure of Merit (FOM) for N9 Lead Proponent prioritization in the Shore Mission Integration Group (SMIG).

b. CATEGORY B MWR Facilities – Basic Community Support Programs. These programs are closely related to those in Category A in supporting the military mission. They satisfy the basic physiological and psychological needs of Service members and their families, providing to the extent possible the community support systems that make DoD installations temporary hometowns for a mobile military population. These support programs should receive substantial amounts of APF support but differ from those in Category A in part because of their limited ability to generate NAF revenues. Category B activities cannot be sustained without a significant level of APF support. Programs include Childcare and Youth Programs, Community Programs, Recreational ITT, Recreational swimming, Splash parks, Military and Family Member Recreation Center, Outdoor Recreation and Equipment rentals, boating without resale Boats and equipment are MWR owned and operated, Camping, Arts and Crafts development, Automotive Skills, bowling 16 lanes or less and Youth outdoor playing courts and fields (CONUS).

Appropriated funds (APFs) are the primary fund source for Sustainment and Restoration.

MWR category B facilities that should normally be funded from APF for sustainment and restoration repairs must have documented non-availability of APFs, as well as ASN (EI&E) waiver approval, to use NAF in lieu of APF, prior to commitment of NAF. References c and d applies.

Nonappropriated Funds (NAF) are the primary funds source for Modernization (repair), Minor Construction, Major Construction to include expansion of CAT B MWR facilities. Reference c applies.

The Figure of Merit (FOM) is required to codify Centrally Managed priority investments 1-N of category B assets when the construction cost is greater than \$1,000,000. The FOM is recommended for projects within the region threshold.

For NAF projects, the construction cost includes design, contingency, Supervision, Inspection, and Overhead (SIOH) and Post Construction Awards Services (PCAS). It does not include the design cost in the case of Design Bid Build contracts.

c. **CATEGORY C – Revenue Generating Programs.** These programs provide recreational activities that contribute to building a sense of community and enjoyment. Activities in this group have the business capability of generating enough income to cover most of their operating expenses but they lack the ability to sustain themselves based purely on their business activity. Programs includes Food, Beverage and Entertainment Programs, Recreational Lodging cabins, cottages, RV parks, Rod, Gun and Skeet, Amusements and Recreational machines or Gaming, Bowling over sixteen (16) lanes, Golf, Marinas with resale or private boating or storage, Base theaters (cinemas) Vehicle Storage, and Kennels.

Appropriated funds (APFs) are the primary fund source for Sustainment and Restoration Maintenance except for the physical Golf course and support facilities. Revenue generating programs at designated remote and isolated locations may receive the same type or level of APF support as Category B programs. Reference b applies.

MWR category C facilities with the exception of the physical Golf course and support facilities that should normally be funded from APF for sustainment and restoration repairs must have documented non-availability of APFs, as well as ASN (EI&E) waiver approval, to use NAF in lieu of APF, prior to commitment of NAF. References c and d apply.

Nonappropriated Funds (NAF) is the primary funds source for Modernization (repair), Minor Construction, Major Construction to include expansion of CAT C MWR facilities. Reference b applies.

The Figure of Merit (FOM) is required to codify Centrally Manage priority investments 1-N of category C assets when the construction cost is greater than \$1,000,000. The FOM is recommended for projects within the region threshold.

For NAF projects, the construction cost includes design, contingency, Supervision, Inspection, and Overhead (SIOH) and Post Construction Awards Services (PCAS). It does not include the design cost in the case of Design Bid Build contracts.

3. Capital Investment Boards

a. The CNIC Capital Investment Board will manage the requirements of the Centrally Managed Capital Investment Program as identified by the submitted Region CIB Integration Priority List (IPL). The CNIC CIB will prioritize, program, and fund all Categories B and C facility requirements to include ancillary or support facilities when the projected cost is greater than \$1,000,000. The collaboration and consolidation of the region IPLs will result in the five-year Centrally Managed Program NAF Investment Requirements Plan (NIRP) 1 - N list for Major projects for both category B and C programs. The category B and C programs 1 - N (NIRP) list will be prioritized separately.

b. The Region Capital Investment Board (CIB) will manage the requirements of the Region Integration Priority List (IPL). The Region (CIB) will prioritize and fund all Categories B and C facility requirements to include collateral equipment, ancillary or support facilities when the projected project cost is less than \$1,000,000. The collaboration with the installations will result

in the Region five-year IPL priority 1 – N list for Minor projects for both category B and C programs. The category B and C programs 1 – N (IPL) list will be prioritized separately. Minor construction projects (construction component cost between \$200,000- \$1,000,000) require CNIC (CIB) approval before execution. All Repair projects \$1,000,000 or less are approved by the regions. Reference C applies.

c. In recognition of the minimal ability of CAT B programs to increase revenues or generate positive cash flow, the CNIC CIB and Region CIB must ensure the balance of Category C assets are included in the investment planning and prioritization to maintain the recapitalization fund.

d. Regions are encouraged to consider advanced project planning and development to prioritize requirements. Most significant are shared or multi-use facilities when the NAF investment is targeted to a specific MWR program within the shell of a shared facility.

e. Projects not approved and funded in a Program Year are reprioritized in the Region IPL.

f. MWR Category A and all other N9 non-MWR program facility requirements will be managed by the Shore Mission Integration Group (SMIG) FSRM OM&N and MILCON (MCON) in coordination with the Regions, CNIC N92, HQ Program Managers, and CNIC N944 for N9 Lead Proponent prioritization. This includes Unaccompanied Housing UH, Child and Youth Programs (CYP), Galley, Fitness, Fleet and Family Service Centers and Libraries.

4. Fund Source

a. The sale of goods and services shall be the primary source to fund the NAF Centrally Managed Program, and IPL Major and Minor requirements.

b. Rates and fees are established by the Region to manage NAF operations and to support the Capital Investment requirements.

c. Regions shall prepare an annual NAF budget and capital plan to fund repair, renovation, and modernization projects identified on the Region IPL utilizing strategy guidelines.

d. The CNIC MWR NAF Centrally Managed Capital Investment Program is resourced annually or as directed by the CNIC CIB Chair, N9. The assessment is based on the region banking cash as a percent of the total cash.

e. CNIC CIB will manage the Centrally Managed Program with routine input, guidance and instruction provided by the Region CIB and the CNIC CIB.

f. The CNIC CIB Chair, N9 may realign or fence funds in the best interest of the Navy for target investment in direct support of Fleet, TYCOM or Strategic Laydown requirements.

g. The Centrally Managed Program will retain a percentage of the available cash for contingency purposes and / or increases in project costs.

5 Financial Analysis

a. The CMP will use a 3-7% hurdle rate for category C projects with a simple payback of 20 years or less and a Net Present Value (NPV) of zero or greater. The hurdle rate for Category B projects is breakeven or better. The hurdle rate may be adjusted either up or down depending on the capital market conditions.

b. The NPV is expected to be produced over the useful life of the project.

c. Useful life is defined as 15 years for repair / renovation and 30 years for new construction.

d. The Internal Rate of Return (IRR) is the rate that equates the capital investment with future cash flow generated by the project (produces an NPV of zero).

e. Simple Payback is the amount of time needed for future cash flow to recover project cost.

f. Net Present Value (NPV), Internal Rate of Return (IRR), Simple Payback, and Return on Investment (ROI) will determine the economic feasibility of projects more than \$2M.

g. Fact of Life considers the financial benefit, as well as other non-monetary benefits produced by the project. Since ROI incorporates factors other than financial, there is no exact formula for its computation. ROI recognizes overall benefit to the Navy mission that is derived from the project. Examples of ROI benefits include direct support to deployed forces, vessels in overhaul, remote & isolated, feast or famine locations, or providing on base support where there is limited off base capacity.

h. The strategies as currently outlined, will remain in perpetual review and evaluation within all levels of N9 to ensure the maximum effectiveness of the Centrally Managed Capital Investment Program and the Commander's intent.

6. Definitions

a. Construction. Includes construction, development, extension of any kind carried out with respect to a military installation, whether to satisfy temporary or permanent requirements. Construction includes the following: erection, installation, or assembly of a new real property facility; addition, expansion, extension; and relocation of a real property facility. Construction projects may include supporting utilities, roads, parking lots, equipment installed in and made a part of such facilities (built-in equipment), related site preparation, excavation, filling and landscaping or other land improvements incidental to the project.

b. Repair.

(1) A repair project is defined as:

(a.) To restore a real property facility, system, or component to such a condition that it

may effectively be used for its designated functional purpose.

(b) To convert a real property facility system or component to a new functional purpose without increasing its external dimensions

c. Major Construction. A construction project with a construction component cost that exceeds \$1,000,000.

d. Minor Construction. A construction project with a construction component cost between \$200,000 and \$1,000,000.

e. Modernization. Alterations of a facility solely to implement new or higher standards (including regulatory changes), to accommodate new functions, or to replace building components that typically last more than 50 years (foundations, structural members).

f. Restoration. Repair of a facility damaged by inadequate sustainment, excessive age, natural disaster, fire, accident, or other cause.

g. Sustainment. The maintenance and repair activities necessary to keep a facility in good working order. It includes regularly scheduled maintenance, cyclical repairs, or replacement of components over the expected service life of facilities (e.g., roof, or HVAC replacement).

h. Development Year. The year of project development of prioritized projects that ensures the project is executable in the Program Year. The period includes CIB prioritization, scope, and cost development, PVAs, APF companion requirements, installation PWD Work Induction Board for Site Approval, NEPA documents, COR services and design reviews.

i. Approval Year. The year of approvals of fully developed and executable projects. Year 1 of the 5-year IPL towards execution. The period includes package development, submission and brief the MWR NEX Board of Directors - Facility Committee. When applicable, MWR-NEX BOD, OPNAV, Assistant Secretary of Defense (ASD) with congressional notification.

j. Figure of Merit. A figure of merit (FOM) is a quantity used to characterize the performance of a device, system, or method, relative to its alternatives. The FOM is used as a Decision lens to score facility projects.