

**Statement by Heath Burleson,
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Before the House Committee on Appropriations
Subcommittee on Military Construction, Veterans Affairs, and Related Agencies
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Thank you for the opportunity to appear before you today. My name is Heath Burleson and I am a partnership advisor with Corvias. I report directly to ownership, have been with Corvias 16 years and have responsibility for managing relationships across Corvias' U.S. Military portfolio, which includes seven U.S. Army partnerships and six U.S. Air Force partnerships.

I am here today on behalf of 950 dedicated Corvias employees, two-thirds of whom work each day in the military resident neighborhoods we serve. Corvias is a small, privately-owned company. We partner with hundreds of small, minority-owned, disadvantaged subcontractors to provide an outstanding resident experience to those servicemembers who choose to live in our communities.

We take very personally our commitment to the women and men who fight for and serve our nation. We have 69 veterans who, as employees, work at the installation level, often directly with residents. 97 of our colleagues are spouses or dependents of active duty servicemembers.

I thank you for the opportunity to update you on what we are doing to help our residents and address any service needs they may have. I also thank you, in advance, for the opportunity to have a candid discussion about the MHPI program – what's working, what challenges remain -- and how we can make sure the program delivers for servicemembers and their families, for years to come.

In my remarks today, I will touch upon three topics:

- First, what we are doing to address the resident service issues that came to light in 2018.

- Second, what the future holds for the MHPI program. The ongoing challenges—like maintaining aging homes dating as far back as 1870, and funding reductions that have reduced the reinvestment reserves well below what’s needed. Failure to tackle these challenges will have us back to right where we were in late 2018.
- Third, what will help make MHPI a healthy, sustainable program that meets the housing needs of servicemembers in the many years ahead.

It was in December 2018 that news reports came out about service issues in several of our resident communities and at other installations in the MHPI program. Our resident service operations were struggling to keep up, for reasons I will talk about later. By late 2018, the problems had grown to the point where we needed—together with our armed service partners—to launch a major response.

So what did we do? We took three steps.

First, we apologized. We made clear that we had let down some of our residents. We pledged to return to the “gold standard” level of resident care that defined our company, from the start.

Second, we got to work.

We made it easier for residents to get the help they need, when they need it:

- We moved our resident call centers back to the local installations – and out of a remotely located, third-party call center. Now, when our residents need help, they speak to a local Corvias team member, in their community.
- We launched the Corvias Resident Portal to enable our residents, through their phones, computers or other devices, to submit and track service requests, upload photos and provide immediate feedback on our performance.

- In 2020 to date, nearly 2,700 work orders have been submitted via the portal. For those 2,700 work orders, we are pleased to report a 93 percent satisfaction rating on work performed.
- 100 percent of our resident-facing employees participate in ongoing customer service training led by a nationally designated, credentialed trainer.
- We hired resident service specialists across our portfolio. This is an important role, working at the neighborhood level and focused 100 percent on meeting local resident needs.
- We created a new full-time role – resident advocate – who acts like an ombudsman for residents. Our resident advocates help families who have especially challenging issues or feel that their needs are not being met.
- In total, we added over 130 positions focused on staying in touch with residents or responding to service requests.

We also made sure that we are hearing directly from our residents, getting their feedback on a regular basis. We have reinstated our practice of conducting town hall meetings in many communities. We formed resident advisory groups to give us direct input on what's happening in the community.

In January 2020 alone, we've hosted more than 30 meetings and events in the communities we serve, providing residents the opportunity to let us know what's on their mind and for us to directly work toward their satisfaction. This direct feedback helps us do better. It helps us spot problems in the early stages. In 2019, we held more than 160 resident events and we will continue this busy schedule to create multiple ways for residents to express their needs and engage with us.

We also got to work on reducing the number of open service requests and lingering issues. Since the beginning of 2019, our service techs have put in nearly 52,100 hours of overtime to work down any backlog and respond to more than 330,000 resident requests.

Since we've incorporated these steps, we have—in person, by surveys, at events—asked our residents how we are doing and they are reporting increased satisfaction.

This month, in fact, Corvias was awarded for exemplary customer service by SatisFacts, a national, third-party feedback service. Across our communities, our 2019 rankings for courteousness, professionalism and knowledge ranked four-and-a-half out of five, and our Community Management Office scored 4.8 out of 5.

We also took a second look at all of our environmental, health, and safety policies, confirming that they met industry standards. Then, we augmented our existing training by sending third-party experts out to meet with our maintenance and service staff, providing these key servicemember-facing employees with an opportunity to ask any additional questions they felt they needed answers to in order to best serve our residents. This effort has renewed our confidence that employees fully understand how to address minor concerns during the ordinary course of their work, while raising more significant concerns with management so that we can bring a third-party expert to ensure that our residents and partners get the service they expect and deserve. Moving forward, we are working closely with our Partners, and other MHPI participants, to develop standardized policies and standards to address these issues, which we anticipate rolling out over the course of this year. This effort will ensure that servicemembers are provided consistent services across installations.

While we have accomplished great improvements, we are also learning where we have more work to do and are able to develop specific operational plans in response.

Our residents tell us that community amenities – like recreational facilities – make a big difference in their quality of life. We repaired and reopened playgrounds and other facilities like basketball courts. We reopened several community centers that had previously been closed when our MHPI partnerships experienced financial strain. At our community swimming pools, we extended the open season by two months.

We are also doing a better job of keeping our military partners informed. We are meeting regularly with military leaders – both on the installation and at the command level – to ensure they are tracking what we are doing, what's working and what we need to do better to meet residents' expectations. We thank the members of this committee and Congress for supporting the addition of

significant funding in the FY20 MilCon Appropriations bill for increased the capabilities for our military partners to be more effective in their role and for not requiring the housing reserve funds to absorb this cost of this needed funding. Given the serious pressures on the reserve funds, we urge the Congress to follow the approach of providing direct appropriations for this function going forward.

These and other steps have helped renew and deepen the partnership between Corvias and the military – a big part of what will get us to the right place.

Finally – and significantly – we have moved forward with a significant investment of private capital, taking a unique and innovative approach to inject \$325 million of new money into the program – at no cost to the government. And we are close to finalizing an additional \$157 million to modernize and improve even more homes.

This innovative solution addresses the root cause of these issues, allowing us to replace aging homes and components with more resource-efficient alternatives. That automatically reduces maintenance backlogs, lowers utility bills, and eliminates potential health concerns. By the time we're done, nearly 18,000 homes will have been improved:

- We broke ground on 128 new or newly renovated homes at Fort Riley, while 280 homes at Fort Bragg are undergoing major renovations.
- Hundreds of other new homes will be built, renovated, re-roofed or substantially improved in communities at multiple installations nationwide.
- 16,000+ homes will be brought up to the highest energy standards available – with improvements like Energy Star-rated heating/air conditioning systems. These upgrades will save the program \$300 million in energy costs over the next 30 years.

This is among the most important things we can do. It puts more servicemembers into quality, refurbished homes that meet current expectations for materials, functionality and aesthetics.

And it shows what the MHPI partnerships can accomplish, attracting private investment capital to the program without costing the government a dollar.

To be clear: we have more work to do. It took us half of a generation of budget cuts to get to where we found ourselves in late 2018. It's going to take some time to get back to the gold standard of communication and service that residents enjoyed in the early years of our MHPI partnerships. And will take significant consideration of and action to alleviate the program's shortfall in reinvestment reserves.

But we know how to help our residents, how to make our communities run well and provide quality homes. And that's what we are doing. Last week we achieved a critical milestone as Secretary Esper signed the Tenant Bill of Rights that we, Congress and our military partners have worked together to establish since last winter. With our partners in the military and working closely with our residents on these and other pending actions, we're moving in the right direction.

However, any recent progress should not be taken as a cure-all for the program. Underlying, longer-term issues place a huge burden on the MHPI model. It was these issues that led us to where we found ourselves, last year.

And it is these same issues that will have us back in a similar situation – in a few years' time – if we don't deal with them. We'll be back here, having the same discussions, dealing with the same communication and service issues that have affected some of our residents.

So what are those deeper issues? What is eating away at the program – even as we get back to gold standard resident service, and renovate and build hundreds of homes?

The MHPI model is being squeezed from three angles:

- **Lower revenue** coming into the program with BAH reductions, troop draw downs.
- **Higher costs** – from utilities to subcontractor costs to a booming economy outside the gate
- **Older homes** that require significantly more resources to keep them running.

Individual servicemembers' Basic Allowance for Housing (BAH) is fundamentally the only source of revenue that funds the entire program. And yet, for nearly a decade, BAH has been under downward pressure. The Budget Control Act of 2011 and sequestration forced the DoD to look at reducing BAH. The 2016 NDAA slowed the rate of growth in BAH by one percent per year until servicemembers were receiving housing stipends that were 5% less than market rates. For on-base privatized housing, it meant that rental rates were capped at an artificially low BAH rate that failed to provide enough funding for long-term reinvestment and short-term operations and services.

With fewer dollars flowing into the program, the economic model became out of balance. Private companies like Corvias were caught between trying to deliver for today's needs while saving for tomorrows—an untenable situation.

Additionally, force structure downsizing meant fewer residents which, in turn, reduced revenue and then reduced the program funds approved for resident service and infrastructure renovations.

For example, across our Army portfolio, the monthly BAH for servicemembers with dependents **decreased** an average of \$98 per month—or \$1,170 per year—which is almost 6% from 2014-2020. Compounded year over year over thousands of residents, this results in significant decreases to the reinvestment reserves, which are the very funds within the program that allow for capital improvements, sustainable, long-term maintenance, renovations and new construction.

Where are we today? The reinvestment reserves alone are insufficient to fully address the immediate needs, and without action and working together to enable innovative solutions, those needs will remain largely unaddressed and grow exponentially.

And while revenue into the program has been going down, costs have gone up.

In some respects, our resident communities are no different than a civilian neighborhood. Extreme weather like heavy rain and hurricanes has run up repair costs such as fixing dozens of damaged roofs after a storm. Building materials aren't getting any cheaper. Rising utility costs – 11

percent in the past three years alone -- driven in part by the utility providers' need to replace aging infrastructure -- create additional challenges for the program.

There are also some unique aspects to supporting resident communities on post.

Our partnerships were never intended to be static, fix it and forget it. Instead, the reality is that factors will change, like market fluctuations, aging homes and force restructuring. MHPI was envisioned to be a dynamic program, one with engaged partners who work together over the long-term.

What I just described presents unforeseen costs which were absorbed in the partnerships. Combined with the impact of lower revenue, we had to find other ways to make the program numbers work.

Ultimately, that's what led to decisions like reducing our local resident support presence or closing community centers. Yet as we now reverse many of those decisions, the costs remain high -- and, in some areas, are getting higher.

The other way to address higher costs in the MHPI model -- without impacting resident service -- is to slow down the pace of new construction and major home improvements. But that creates another set of challenges.

Across the installations we support, we have a large number of homes that are beyond their life expectancy. Approximately 6,000 homes in our 22,000 Army portfolio were built before 1980. We even have some homes -- still active and renting -- that date back to 1870, with many designated as historic, which increases the expense and time required to repair and improve these homes.

The number of extremely old homes is down from where we were 10 years ago, but still much too high.

And with each year they remain in service, older homes require more maintenance to keep going. Repair or replacement of essentials like windows or roofing costs 3-5 times as much in one of these older homes and is required more frequently.

The result: with every year they stay in the portfolio, older homes consume a larger portion of the revenue coming into the program.

The combination of lower revenue, higher costs and aging homes is what got us into the situation we faced a year ago. And while we're here today to talk about progress and what has changed this year, some things haven't changed. Revenue into the program is under stress; costs continue to go up, and too many old homes require too many resources.

While the more the 50 provisions in the FY20 NDAA provide policy improvements to how the MHPI program operates, it fails to solve for the increasing and impending challenges the program faces related to aging assets and insufficient resources necessary to continue providing quality housing over the long-term future.

So what can we do about it? How do we make sure that our residents aren't just seeing temporary improvements...but are supported by a program that will deliver a quality experience, for generations to come?

First, new investment is needed now and across the entire MHPI program as reinvestment reserves alone are insufficient to address the immediate development needs in a timely manner. Corvias has developed and implemented an innovative solution—the ability to unlock and immediately deploy \$325 million, plus another \$157 million coming soon—across its Army portfolio. This is repeatable. It can be done across all branches, with all private partners, and Corvias remains ready and willing to share our expertise in this area.

Second, this program was predicated on the Basic Allowance for Housing remaining stable. Instead, BAH has been reduced and troop draw-downs have decreased the market, all while expenses have increased, and homes have aged and require more capital investment. Stabilization

of on-post Basic Allowance for Housing is the single-most important factor in ensuring long-term MHPI success.

Third, let's work together to make it easier for the MHPI program to attract outside capital. From the beginning of MHPI new and additional investment was always contemplated, yet the program has changed so much that securing new investment is extremely difficult. The innovative solutions that have provided \$325 million of new capital, and will soon provide an additional \$157 million, can only go so far. Reverting to the original OMB scoring for MHPI and enabling longer debt terms would make it significantly easier to get non-government dollars improving military resident communities.

Corvias is ready today with solutions. And we want to work together to refine and quickly implement more investment into military housing.

Chairwoman Wasserman Schultz, Ranking Member Carter and Subcommittee Members, it is my privilege to provide testimony about the Military Housing Privatization Initiative, just as it is my honor and privilege to serve among Corvias' leadership. In my long tenure with Corvias, I have seen the transformation of not only the physical homes, but of the positive difference we can make in the lives of servicemembers and their families.

I have seen the care and support we provide while spouses are deployed, the relentless attention we exhibit to making sure that our thousands of residents not only have a residence, but that they feel at home with quality services and amenities, with excellent customer service.

And most recently, having visited our installations in the past months, I have seen how directly and successfully we are working to meet the current challenges head on. We remain committed to the improvements that have been made. And we are committed to working together to solve the longer-term challenges of this program.

Thank you for the opportunity to appear before this Subcommittee.