

WRITTEN STATEMENT

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Before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies of the House Appropriations Committee

Hearing on Military Privatized Family Housing Oversight

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I. INTRODUCTION

I thank you for the opportunity to testify before you and provide an update on the status of our Military Housing Privatization Initiative (MHPI) projects and our ongoing efforts to make improvements to the quality of the homes, the services we provide and the resident experience for the long-term. Significant and lasting improvements have been made over the last three years. Today I'd like to share with you the progress we have made and the ways in which we are working to deliver an exceptional living experience for our service members and their families.

We work hard to maintain vibrant, diverse and active communities for our men and women in uniform and their families. We recognize that these communities are central to the quality of life for our service members, and we do not take that lightly. We value the continued partnership with Congress and the Department of Defense and remain focused on our common goal of enhancing the housing experience for service members and their families.

II. SERVING THOSE WHO SERVE

Balfour Beatty Communities is a diversified real estate services company focused on the acquisition, management and renovation of residential assets in the military housing, multifamily and student sectors. As one of the earliest partners in the Military Housing Privatization Initiative (MHPI), we consider it an honor and privilege to serve those who serve our country. From the delivery of new and renovated housing to the provision of responsive property management and maintenance support, we strive to create thriving communities that fully support the unique and evolving housing needs of our service members and their families. We also pride ourselves on delivering dynamic resident events, community gathering spaces, playgrounds, parks and other amenities for our residents.

The Balfour Beatty Communities team has been a leader in the U.S. residential real estate market for more than 20 years. Today, alongside our military partners, we are responsible for housing operations at 55 Army, Navy and Air Force installations in 26 states, encompassing more than 43,000 military homes and 150,000 residents. Through these projects, we have partnered with the Department of Defense (DOD) to oversee the construction of more than 15,000 new military homes and the renovation of more than 14,000 legacy military homes. This portfolio also includes nearly 1,000 homes that qualify as historic properties.

III. DEPARTMENT OF JUSTICE INVESTIGATION AND SETTLEMENT

In December 2021, Balfour Beatty Communities reached a resolution with the Department of Justice (DOJ) regarding criminal and civil investigations into specific performance incentive fees improperly claimed by the business between 2013 and 2019 related to maintenance work at certain military housing installations. Under the terms of the resolution, Balfour Beatty Communities pleaded guilty to one count of major fraud against the government and agreed to the appointment of an independent compliance monitor for up to a three-year period, as well as to pay fines and restitution.

Balfour Beatty Communities is committed to the highest standards of ethical conduct. The wrongdoing that took place is completely contrary to the way we expect our people to behave. It has been made clear to all employees that breaches of policies, procedures, or law will not be tolerated and we welcome the appointment of the independent compliance monitor and look forward to a constructive engagement.

Since 2019, we have worked diligently to understand the root causes of employee misconduct that was uncovered and we undertook an in-depth review of our operations. As a result of our findings, we have taken significant steps to prevent this type of misconduct from reoccurring in the future. These include the restructuring of our management team, including the appointment of several additional senior executives and a Chief Compliance Officer. In addition, we have enhanced our ethics and compliance training for all employees and made significant improvements to the maintenance work order processing system, underpinned by enhanced controls and protocols that are deliberately aimed at strengthening oversight.

Balfour Beatty Communities cooperated fully with the DOJ throughout its investigation, and we have been transparent on the matter with all our stakeholders, including the Department of Defense (DOD), our Military Service partners, this Subcommittee, and the others that have held hearings and made inquiries into privatized military housing over the past three years. As we made clear throughout the investigation, our objectives included full transparency and accountability for the improper payment of performance incentive fees, including the reimbursement of such amounts to affected projects, and the termination or disciplining of any employees found to have been non-compliant with our policies and procedures. The agreed upon resolution with the DOJ represents our commitment toward taking responsibility for wrongdoing within our organization and brought the investigation to a close.

We have apologized to all our stakeholders for the misconduct that occurred and we are focused on moving forward and continuing to improve the resident experience across our military housing portfolio.

IV. FOCUS ON THE RESIDENT EXPERIENCE

Our primary focus is providing our service members and their families with safe, quality homes supported by prompt and effective customer service and maintenance support. Our employees take this mission very seriously and we work diligently every day to achieve resident satisfaction.

We have made it easy for residents to raise needs or issues in the home that need work and engage our teams for support. Enhancements to our work order process allow residents to submit and track work orders through an app, online Resident Portal or a phone call to our maintenance call center which is

staffed with live work order agents available 24/7 to initiate the ticket in our system, schedule maintenance visits, provide status updates on open work orders and answer any related questions in real time.

Maintaining robust, open communications with residents is a key focus for our teams. Our approach to resident communications not only focuses on ensuring residents have all the information they need when they need it, but also that easy two-way communication channels are in place and residents have the opportunity to connect with our team and build camaraderie with the larger community. Enhanced Resident Portals put a wide variety of resources and information right at the residents' fingertips, allowing them to access lease documents, view work order history, review community messages and event calendars, as well as access community policies and forms, household maintenance and safety tips, trash and landscaping schedules, information on community amenities and the local area and more. Residents have the flexibility to access their resident portal account on their computer or any smart device through a mobile app. Another important communication vehicle is the community newsletter which is sent to residents on a monthly basis and contains a message from the community manager, updates on community projects, reminders about community policies, details on community events, introductions of new employees and much more.

We understand the importance of feedback and we seek it from multiple sources to help us get the clearest picture of our performance as residents see it. We have multiple check points with new residents before, during and after move-in to ensure the process has been smooth, that there are no issues or questions regarding the home, and that the family is settling into their new community as smoothly as possible. Another critical touch point is our response to work order requests. When our maintenance technicians complete a work order, our process includes contacting the resident via text message (if the resident agrees) in order to confirm that the work was completed to their satisfaction and no outstanding issues or questions remain. Through that interactive dialogue with the resident, we do not close work orders as fully completed if a resident indicates he/she is dissatisfied with the work performed and we engage with the resident to address their remaining maintenance concerns.

We supplement this personal outreach with surveys, managed by an independent third-party provider, to residents after move-in and work order completion asking them to rate and provide feedback on the courtesy and professionalism of our employees, the quality of our work, and the overall ease of the process. Administered by residential survey leader SatisFacts, residents are asked to rate the service they received on a scale of 1 to 5, with 5 being a superior service score. In 2020, we received close to 45,000 survey responses from residents and our average service rating was 4.51. In 2021, we received just over 40,000 survey responses from residents resulting in an average service score of 4.53. While the numbers give us a solid baseline, we look to the survey results to provide us insights into how to identify any potential negative trends and improve our processes wherever possible. It's a significant part of our commitment to continuous improvement.

With a diverse portfolio of more than 43,000 homes—over a third of which are aging military construction units—and on average more than 280,000 resident-generated work orders processed annually, we are never going to have zero defects. There will always be challenges to face—things in the home will break, systems will fail, natural disasters will hit, and complaints will surface. However, we remain determined in our goal to always be responsive to the service member, continuously improve, and deliver on our commitments for the long-term.

V. A RENEWED PARTNERSHIP

One of the most significant outcomes of the reforms and increased focus on MHPI in recent years has been the DOD, Military Services and private partners working closely together to solve the issues and challenges facing the projects.

Our partnership with the Military Services extends well beyond the financial partnerships in our projects. We are now partnered with the Services at all operational levels up and down the chain to ensure we are sharing information in unprecedented ways and working jointly toward our common goal of providing service members and their families with a safe, quality, affordable housing option. This includes regular engagement on issues and opportunities, jointly briefing residents through periodic housing town halls, as well as providing multiple points of contact across both of our organizations for residents to request service, provide feedback, or seek help.

Our local property teams meet weekly with the local Military Service housing office representative to discuss ongoing housing operations, including occupancy, the wait list, work order trends, and any resident relations issues. Similar topics are discussed in monthly meetings between our local teams and Installation Commanders and/or their staff, with a particular focus on major development and capital repair/replacement projects, as well as life/health/safety reviews for housing. Our connections are further reinforced through annual site visits at all of our Air Force locations with members of the Air Force Civil Engineer Center (AFCEC), and at all of our Army locations with members of the Office of the Deputy Assistant Secretary of the Army (DASA), and the Assistant Chief of Staff for Installation Management (ACSIM). Annual asset management meetings are conducted for all of our Navy properties with representatives from the Commander, Navy Installations Command (CNIC).

At the most senior levels, members of our leadership team meet monthly with leadership from Army Installation Management Command (IMCOM) and Navy Facilities Engineering Systems Command (NAVFAC), and conduct monthly partnering meetings with the Air Force to include portfolio synchronization calls with Air Force Civil Engineer Center (AFCEC). Our senior executives also meet weekly with the office of the Assistant Secretary of the Army for Installations and Environment (ASA IE&E). As part of these meetings, a variety of reports and data points are shared, and trends, challenges and opportunities across the portfolios are discussed. These meetings are also used to review project finances and major development efforts.

VI. MHPI TENANT BILL OF RIGHTS

Balfour Beatty Communities continues to fully support the MHPI Tenant Bill of Rights, as part of our shared commitment to ensure service members and their families have access to safe, quality, and well-maintained homes, along with fair treatment.

When the DOD released the Tenant Bill of Rights in February 2020, there were three outstanding provisions that were new to MHPI projects and required coordination with DOD, the Services and the project lenders to be successfully implemented.

As of June 1, 2021, Balfour Beatty Communities—in partnership with the DOD and Military Services—has fully implemented the MHPI Tenant Bill of Rights, including providing a 7-year maintenance history

to prospective tenants and current residents upon request, and participation in the Air Force, Army and Navy Dispute Resolution process, which provides service member residents the ability to request rent withholding pending an independent review of their claims.

Since June 1, 2021, we have provided 7-year maintenance histories to more than 15,100 prospective tenants and have had just 19 decline the home they were being offered—less than 0.2%. To date, we have had one resident complete formal dispute resolution from our portfolio of more than 43,000 homes.

VII. HOUSING IMPROVEMENTS

Our MHPI projects continue to implement upgrades for aging homes and improvements to community infrastructure on an ongoing basis. Over the last three years, our housing projects have invested more than \$300 million in wide-ranging improvements to more than 40,000 homes including roof replacements, exterior renovations, HVAC system replacements, interior upgrades, community infrastructure improvements and demolition of aging home inventory.

We are constantly evaluating the project financial resources available to fund housing improvements. We continue to focus our project development efforts on those assets that are most in need; and we currently have more than \$1 billion in housing and infrastructure improvements programmed through 2031. These efforts will include significant whole-home renovation work and new home construction, as well as continued demolition of outdated inventory to make way for new construction or return to green space or other community amenities.

Balfour Beatty Communities is also working through the final stages with the Army to refinance one of our military housing projects to raise additional funds for the continued demolition and replacement of aging housing, as well as significant renovations to certain outdated units across a number of Army bases. We are continuously evaluating opportunities to raise additional financing for our projects – whether through project refinancing in the form of follow-on equity or debt issuances or through securitization structures.

We have also developed several innovative ways to financially support our projects, including developing relationships with cell tower and solar operators to license unused land within our project footprints to construct cell towers and ground mounted solar arrays.

We are also strongly committed to advancing the DOD's energy security goals by making homes more energy efficient, by investing in renewable energy solutions and following sustainable construction practices. We believe these endeavors help to strengthen our communities and better position them to be part of our military installations of the future.

Solar Energy Initiatives

Balfour Beatty Communities has partnered with the Army, Navy, and Air Force on rooftop solar programs that are critical to achieving the DOD's energy security goals. Adding solar capacity to military neighborhoods also benefits the long-term financial health of military housing projects by lowering utility costs. Those utility cost savings are then invested back into the communities to make improvements to housing and enhancements to neighborhood amenities. The energy initiatives

achieved through our MHPI projects are improving the quality of life for military families while making installations more energy efficient.

To date, we have assisted our projects to execute agreements with solar partners to install more than 48 megawatts of solar across our military housing portfolio, offsetting on average 25% of each community's energy consumption. These efforts are ongoing with an additional 5 megawatts of rooftop solar installation currently in the construction or planning stage for 2022.

Energy Efficiency Investments & Strategies

Balfour Beatty Communities also has developed ways for our projects to invest in energy efficient systems and environmentally sensitive construction practices to reduce the demand for energy on base. As part of the construction, renovation and ongoing maintenance of our military homes, we are installing upgraded, energy efficient appliances and systems, including water heaters, furnaces, air conditioning units, lighting and plumbing fixtures. Over the last two years we have fully replaced the HVAC systems in more than 2,400 military housing units, improving system performance for residents while reducing energy use by almost 25% and significantly lowering carbon emissions.

In 2021, our Fort Eustis/Fort Story project completed a \$12.2 million program to improve the energy performance of more than 1,000 privatized Army homes in Virginia. This innovative project is expected to deliver turnkey energy efficiency improvements through a self-funding Energy Savings Performance Contract (ESPC). Upgrades include new, highly efficient HVAC systems equipped with modern thermostats and humidity-sensing bathroom exhaust fan switches, making the homes more comfortable to live in, reducing mechanical outages, and standardizing equipment across the portfolio which will reduce operating and maintenance costs. The project also improved the homes' weatherization sealing and provided comprehensive water efficiency and energy upgrades through domestic water retrofits and LED lighting technology. We are currently working with the Services to implement similar ESPCs at several additional military housing locations in the coming months.

In addition to these energy saving methods, we employ environmentally responsible building methods during construction and renovation. Some of these methods include recycling demolition materials to limit landfill use, repurposing certain materials onsite such as concrete debris to reduce trucking/haul off impacts, constructing bio-swale and retention systems to filter and protect watersheds, and utilizing building materials with a high percentage of recycled or sustainable content to reduce overall carbon footprint.

VIII. LONG-TERM VIABILITY of MHPI

MHPI was enacted by Congress in 1996 to address a maintenance backlog that was estimated then to represent more than \$20 billion for homes on more than 150 military installations. MHPI established true partnerships between the Services and private sector companies. In the early years of these partnerships, the initial investment and development period resulted in very visible improvements: construction of new, more modern homes, demolition of old outdated homes, renovations to update and enhance existing homes, and the development of a large number of amenities, from community centers, pools and fitness centers, to playgrounds, sport facilities, recreational trails, and dog parks. With MHPI also came larger, more experienced property management teams enabling a more modern

and responsive leasing experience for military families, all with a close connection with our Military Service partners to ensure they were informed and involved in the process.

As the MHPI projects closed their initial development period, several factors began to challenge the project budgets. For example, lower on-base occupancy rates due to force reductions, and reductions to Basic Allowance for Housing, which service as the primary revenue source for all MHPI project housing operations, meant fewer project funds that could be programmed for housing maintenance and improvements. As a result, the Services and private sector partners worked together to make adjustments to military housing projects in line with these more limited project funds. These adjustments were focused on maintaining reserves to allow for the continued replacement of aging homes throughout the entirety of the project term (i.e., 50 years), but this resulted in more limited renovation and modernization of older homes that had been constructed by the military prior to privatization of the projects.

Balfour Beatty Communities has worked closely with the Military Services to address these issues and develop new strategies to restructure project financing in order to bring much-needed capital improvements to thousands of aging military homes. Our energy, utilities and asset management experience has allowed us to implement cost-saving measures, freeing up resources to deliver high-quality resident services and to initiate additional new construction and renovation work.

Balfour Beatty and our military partners remain committed to the long-term viability of the MHPI program. We believe that these public-private partnerships are the most effective way to provide the highest quality standard of life in housing for service members and their families. However, the costs associated with recovery and restoration efforts in response to more frequent and severe natural disasters, soaring insurance premiums, implementation of major program reforms, inflationary and supply chain challenges, and the increasing unpredictability of the Basic Allowance for Housing which remains the primary source of our project's funding, pose challenges for many projects. In addition, despite the efforts noted in this testimony, a significant number of aging and outdated homes remain in the inventory. Additional resources, more flexible financing tools and innovative strategies are needed to ensure the long-term stability of MHPI and ensure the program is equipped to deliver safe, quality homes for the life of the partnership.

IX. CONCLUSION

Over the last three years, Balfour Beatty Communities has demonstrated an unwavering commitment to listening to our residents, Service partners, members of Congress, advocates and others, and to sharing information about our operations with absolute transparency. We have worked extremely hard to make real improvements across all aspects of our business and our performance metrics confirm we have made significant progress and the overwhelming majority of our residents are happy with their home and the service we provide.

We believe that continued open communication and transparency with all MHPI stakeholders—residents, the DOD, the Military Services, Congress and program lenders—is key to continuing to improve and strengthen the MHPI program. Balfour Beatty Communities continues to meet regularly with each of these stakeholders, including members of this committee and your professional staff, to share updates on our progress. We remain committed to sustaining these efforts and continuing to work

with residents, military housing advocates and our partners in the Congress and the DOD to address this challenge and seek effective ways to support the long-term viability of the MHPI program.

Again, we appreciate the opportunity to testify today and to continue serving our men and women in uniform and their families.