

STATEMENT FOR THE RECORD

By Carolyn Tregarthen, Managing Director, Lendlease Americas

House Appropriations Committee

Subcommittee of Military Construction, Veterans Affairs and Related Agencies

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Chairwoman Wasserman Schultz, Ranking Member Carter and distinguished Members of the subcommittee, my name is Carolyn Tregarthen, Managing Director of Lendlease's Communities Business Unit. As the senior executive at our company responsible for all our programs with the Department of Defense (DoD), I am pleased to be able to discuss our ongoing efforts with our military partners to continuously improve the Military Housing Privatization Initiative (MHPI). Lendlease is honored to be a trusted partner of the DoD across the MHPI program for twenty (20) years. We currently manage approximately 40,000 homes on 28 installations, in which over 120,000 military family members reside.

We are proud of the service we provide our residents and of our close working relationship with the DoD, Congress, and the military families who choose to make a Lendlease community their home.

As this Committee is aware, the two (2) years since the last time we appeared before you in March 2020 have been remarkably challenging for our country, and the MHPI industry was not immune from those challenges. Despite the implications of a global pandemic, our commitment and dedication to the military families we serve never wavered.

Also in March 2020, the Conference Report for the Fiscal Year 2020 National Defense Authorization Act (NDAA) had only recently been enacted, with its many reforms to MHPI. Additionally, and importantly, the FY20 Appropriations bill from this very subcommittee had just been enacted which included an additional \$140 Million for DoD to hire more housing inspectors.

These public policy changes sent a clear message: Congress expects DoD and its private sector partners to do more – and to do better – to support our military families. At Lendlease, we have taken that charge seriously and are eager to share with you the progress we have made.

First and foremost, this led to some difficult but important work including significant investment in enhancing our communities. Today, we have over \$1.7 Billion in development work underway. This figure is exclusively private sector funding (not appropriated funding) and includes the work commenced with an additional \$1.1 Billion in private sector funding raised in 2021 for new and replacement homes and renovations across five of our Army communities, as well as an additional \$600 Million of already approved development work across our other communities.

Reinvesting in the physical condition of our communities is vital, but not our sole focus. At Lendlease, we have long prided ourselves on providing an excellent level of service and experience for our families, and we are pleased that our third-party, independent resident satisfaction surveys continue to show our families are

overwhelmingly pleased with our performance. Just this year, over 94 percent of neighborhoods across our portfolio were recognized as 2021 SatisFacts Insite® survey award winners. Yet, not all our military families were without concerns, and we have continued our self-analysis at all levels of our organization to continuously improve our operations to ensure we are providing the best possible experience to every resident. This core principle, to continuously improve, has made Lendlease an even better company.

Our relentless efforts to improve led us to review all aspects of our customer service, resident engagement, and operational activities - each of which directly impacts the experience of our military families. We have undertaken significant consultation with our residents and appreciate their candid feedback. We also continue to consult with advocacy groups such as the Safe Military Housing Initiative regarding their perspectives on issues facing military families living in our communities. In addition, we work extensively with our various military partners to review our leadership and operational structures.

The Evolution of Our Customer Care Program

To better serve our residents, we reimagined the concept of customer service.

We view the traditional concept of customer service as “customer care.” That simple change has been a vital first step to improving our residents’ quality of life since the first Senate Armed Services Committee hearing in February 2019. Working across all layers of the organization, we have updated systems and processes and added meaningful programs, including fully developing and implementing our customer care team.

Customer care is focused on the interactions that occur between our residents and our teams. Making sure we handle issues quickly, efficiently, and correctly the first time has been our focus. We are now entering the next phase of the evolution of our customer focused journey, which we call customer experience, or CX.

Our CX program focuses on the residents’ entire experience - from the time they begin to explore living on an installation, to the creation of a loyal former resident and all the time and experiences in between. CX is about focusing on understanding the residents’ expectations as our customer. This is critical to creating great resident experiences, critical for our military families.

Currently we are undertaking the following actions to further enhance the components of the resident/customer journey and to be a more customer experience-focused organization:

- Our Resident Advisory Board (RAB) program has been successful and expanded to include all our communities. We developed a guidebook to ensure consistent resources and practices across the portfolio. The RAB charter was updated, and a promotional plan was implemented to create resident awareness of the program and to reach interested volunteers throughout our communities.
- Extensive customer research to understand residents’ feelings as they make their journey through on-installation living. In short, this research helps us to step into their shoes and see our business from their perspective.
- Empowering our customer care managers to improve the whole customer experience. These team members look at customer trends, partner with Resident Advisory Boards (RAB)/Resident Councils and conduct proactive customer dialogue.
- The addition of a senior customer experience leader to our business.

- Our goal for dispute resolution continues to be to solve problems quickly and fairly. All team members are empowered to address resident concerns on the spot. There is also a dispute resolution process which was created in the FY20 NDAA, which provides an informal and formal procedure to resolve specific issues to our customers' satisfaction. This dispute resolution process is available in our universal lease, has been shared with all our residents, and is outlined on all community websites.
- We have focused on solutions to help us identify resident issues earlier and before they become larger challenges. This year we are investigating further enhancements to our customer experience feedback system, to include customer persona research and adding Voice of the Customer data analysis to better correlate the customer data and identify trending issues to maximize opportunities for improvements.

This RAB program is critically important. We understand that we can never overcommunicate with our customers. We have seen significant improvement and tangible benefits in resident communications through the RABs. Communities have a cleaner appearance, since residents have helped us direct resources to improve aesthetics. We have seen an increase in recycling and other environmentally friendly practices that RABs have prioritized. RABs have directed us on how we should prioritize our maintenance of common areas and how to make our neighborhoods safer for kids as they go to school or play with their friends. This shows that when you empower residents to make their voices heard, they are effective advocates for positive change.

We believe these changes have resulted in an improved quality of life for our residents in communities where they can live, work, and thrive – and that is our top priority. After all, our residents are our customers. More importantly, they are members of the Armed Forces of the United States. They expect and deserve our very best.

As an Australian, I may have a slightly different perspective on this issue than others. Lendlease is a leading global property company founded in Sydney, Australia in 1958. We have been operating in the United States since 1970. Many of you know the shared history of our two nations. Australia is the only country to have stood and fought beside America in every major conflict since World War I – and that long-standing friendship is a great source of pride for my country. We at Lendlease are humbled by the opportunity to serve American military personnel and their families by providing quality, healthy, safe, and sustainable communities for military families. I am personally very proud to do my small part in that noble effort.

In the same spirit of partnership, we moved swiftly to implement the many reforms included in the FY20 NDAA, including embracing the Tenant Bill of Rights. We take great pride in this important document, since Lendlease played a constructive role in shaping it. Lendlease was one of the first private sector partners to provide formal certification to each military service, agreeing to **every provision** in the Tenant Bill of Rights. I am proud to report that Lendlease has been a leader in the implementation of the Tenants Bill of Rights and other key provisions from the FY20 NDAA:

- Lendlease was one of the first private sector partners to propose a dispute resolution process for military families when Congress first began debating MHPI reforms in 2019. We were pleased that a very similar provision was included in the final version of the Tenant Bill of Rights.

- Lendlease was the first private sector partner to provide the seven-year “history of the home” to all of our prospective residents throughout our MHPI portfolio.
- Lendlease was one of the first private sector partners to give its approval to the Universal Lease, and one of the first to introduce it into use across our entire portfolio.

While we work consistently to improve our service to our military families, it is worth stepping back and looking at the bigger picture. Despite the justified concerns that have been raised about MHPI in recent years, we firmly believe that the privatization of military housing has been a noteworthy success.

The Need for MHPI

As you know, the MHPI program was enacted out of a critical need to modernize old and dilapidated housing on military installations that, after decades of deferred maintenance, had fallen into disrepair. When DoD realized the full scope of the problem, it became apparent it would never have been able to tackle this massive backlog relying solely on annual appropriated funds. To do so would have only consigned America’s military families to an ever-worsening housing crisis. Accordingly, Congress and DoD made the decision to partner with the private sector. The enactment of military housing privatization through MHPI allowed for much needed private capital and know-how to rebuild and refurbish military housing as well as private sector expertise in maintaining these assets

For nearly twenty years, older homes have been renovated or demolished and replaced with new homes that conform to the latest building codes and are built to meet the needs of a modern military family. To date, across Lendlease’s MHPI portfolio we have invested more than \$7.4 Billion to build over 15,000 new homes and renovate more than 25,000 existing homes.

Historic New Private Investment

We are continuing this landmark private sector investment. As many of you know, last year we announced new private financing that will bring an additional \$1.1 Billion to make further housing improvements across several installations in our Army portfolio, including at Fort Hood (TX), Fort Campbell (KY), Fort Wainwright (AK), Fort Drum (NY), Fort Knox (KY) and several Army installations in Hawaii. This infusion of capital will be fully deployed across our Army portfolio. The capital will expedite important housing and community improvement projects, including renovating more than 12,000 existing homes, constructing more than 1,200 new homes, and demolishing over 2,000 legacy homes across these military housing communities. In addition, improvements to the community infrastructure are also included in this investment, such as new roads and walking paths.

Work on this project has started. A brief highlight of all development work underway is listed below:

- Fort Hood Family Housing (Fort Hood)
 - Civil construction of the site for the first phase of new homes;
 - Installation of ADA-compliant pedestrian infrastructure (crosswalk/curb ramps) throughout the Venable neighborhood;
- Campbell Crossing (Fort Campbell)

- Model homes are under construction;
- Major renovation of legacy Hammond Heights homes;
- Fort Drum Mountain Community Homes (Fort Drum)
 - Interior renovations (kitchens, baths, flooring);
 - Exterior siding and roof repairs;
- Knox Hills (Fort Knox)
 - Design commenced for new homes for Senior Enlisted Officers as well as General Officer homes;
 - Interior renovations for kitchens, baths, and flooring;
- Island Palm Communities (Army Hawaii)
 - Over 1,000 interior kitchen, bath and flooring renovations;
 - Major renovation of historic Palm Circle homes;
 - Demolition of the legacy Patriot neighborhood;
- Hickam Communities (Hickam Air Force Base)
 - Exterior renovations such as painting and new privacy fencing as well as window safety screen installation;
 - Legacy playground demolition and replacement;
- North Haven Communities (Fort Wainwright and Fort Greely)
 - New construction of junior NCO homes with all new civil infrastructure and roads;
 - Replacement of aging roofs;
- Soaring Heights Communities (Davis-Monthan AFB / Holloman AFB)
 - Exterior renovations such as painting and new privacy fencing as well as window safety screen installation;
 - Installation of a splash park and dog park;
- Tierra Vista Communities (LA AFB / Peterson AFB and Schriever AFB)
 - Interior renovations (kitchen, bath, flooring) and HVAC unit replacements;
 - Exterior renovations such as painting and new privacy fencing as well as window safety screen installation.

This work and investment has always been part of our improvement and development strategy, as many homes in our communities were built decades before the military transferred ownership. We are pleased we were able to secure this financing at this critical time. This investment will enable Lendlease's project companies to deliver new and improved housing under an accelerated timeline not envisioned earlier in the MHPI program.

Energy and Environmental Improvements

As part of our outyear development work in Hawaii, Lendlease has partnered with Ameresco to modernize and improve energy and water systems for more than 5,800 homes at Island Palm Communities, which comprises Schofield Barracks, Wheeler Army Airfield and other Hawaii Army installations. The \$150 Million energy security and modernization project provides turnkey energy efficiency improvements and new solar energy systems with minimal upfront capital investment. The project is estimated to reduce energy

consumption by over 32 percent through HVAC replacement and other energy efficiency upgrades. It will reduce water consumption by an estimated 28 percent and provide an additional 6.4 MW of rooftop solar systems. It is estimated to improve positive cash flow annually by an average of \$4.5 Million per year – and these funds will stay exclusively in MHPI programs for additional future improvements in homes and neighborhoods for military families.

Also in Hawaii, at Hickam Air Force Base, a project has recently been approved by the Air Force to replace nearly every existing HVAC system with a new high-efficiency system with no up-front capital investment. This project is designed to reduce grid electricity consumption by 30 percent and billed water consumption by 37 percent. It will further accelerate Hickam's progress towards grid independence, resilience, and drive to Net Zero, while supporting the Air Force's energy priorities. It will also provide superior thermal comfort and indoor air quality for our residents.

This level of new investment and the resulting improvements in housing and quality of life for our military families would only be possible through privatization.

As we look to the future, it is important to recognize the reasons why the privatization model has worked well to date, notwithstanding the problems that have concerned all of us these past three years. MHPI works well for a number of reasons, and one of the main factors is a stable, predictable BAH.

The Basic Allowance for Housing

While billions of dollars in private sector investment have been brought to bear because of privatization, ongoing funding for MHPI comes in the form of rent from the residents - the Basic Allowance for Housing (BAH). Each month, the residents' BAH is deposited into secured accounts and is used to pay for the following:

- Operating expenses
- Debt service
- Approved management fees
- Investment returns
- Long-term reinvestment in our military communities

The remaining BAH funds are not distributed to the private sector developers as profit as some may assume. Those funds remain within the project to fund future development work. Operating "profit" does not leave the project but instead is available to pay debt service related to the work in the project, and the remainder is deposited to the reinvestment account to be used exclusively for the near and long-term improvement of the communities.

As the reinvestment account balances grow, Lendlease and its military partner assess how those funds can be best utilized. The military service provides approval authority for development plans and how funds are expended from the reinvestment accounts.

A stable, predictable BAH is critical to the long-term health of MHPI. It is the financial lifeblood of the entire program. That is why Lendlease has consistently advocated for full (or 100%) BAH across all installations

and services, and why we are supportive of Congressional efforts to bring transparency to the process by which DoD arrives at the BAH each year. We ask Congress to ensure DoD's process is reviewed for continual alignment that reflect housing costs in each location with the ever-changing real estate markets across the United States.

Fuel Leak at Red Hill Bulk Storage Facility

This is not to suggest privatization is without its challenges. At Lendlease, we dealt with a massive hurricane that hit Camp Lejeune in North Carolina, remained on the job for our families throughout the COVID-19 pandemic and supported our residents through a fuel leak that impacted the potable water in Hawaii. Each of these situations is unique, but one common denominator remains the same – our military families needed our help and we rose to the occasions.

Let me discuss the most recent of these challenges in some detail.

The Red Hill Fuel Storage facility is owned, controlled and operated by the United States Navy. It is an underground storage tank (UST) system on the Island of Oahu in Hawai'i, consisting of 28 USTs with maximum capacity of 250 Million gallons of fuel, as well as pipelines and other infrastructure associated with the storage and distribution of marine diesel and jet fuel. Red Hill sits directly above one of Oahu's main groundwater aquifers, which is the primary source of drinking water for Oahu, supplying ~80 percent of the water supply for the island, including the various military installations.

On November 20, 2021, a Navy maintenance worker struck a valve while driving a small utility vehicle through the facility, resulting in the discharge of approximately 14,000 gallons of fuel, impacting the aquifer and various homes, schools and businesses on the island, including the residents at our Army installation of Island Palm Communities and at Hickam Air Force Base. On November 28th, residents began reporting to local management of potentially contaminated water (look and smell). Management immediately notified the Navy and our military partners of these complaints. The fuel leak impacted hundreds of residents at Hickam Air Force Base and residents of the various Army installations in the area that are part of our Island Palm Communities project, several choosing to understandably leave their homes at stay at local hotels provided at no cost to the residents by the Army/Navy.

Even though Lendlease was not in any way responsible for the leak, we immediately marshalled all available resources to support our residents. These efforts included the following:

- Lendlease immediately responded by standing up an Emergency Operations Center (EOC) to service all impacted residents. For two (2) weeks, the EOC was staffed 24/7 by Lendlease;
- Lendlease assisted with bottled water procurement and distribution; securing temporary lodging; ongoing resident checks; providing temporary services ranging from showers to meals and laundry;
- My leadership team, including our head of Environmental, Health and Safety, along with our Chief Operating Officer and myself were onsite the week of December 6 to ensure the local team had all the support necessary to be successful;
- Throughout the crisis, Lendlease leadership participated in daily command update briefings, facilitated resident communication on behalf of the Army's "Task Force Ohana" and Navy Region

Hawaii, and partnered with the Public Affairs offices from the Navy, Air Force, and the Army to execute a robust communication plan;

- We staffed the Aliamanu Military Reservation Community Center, where the Army made showers, medical tents, food service, laundry services, and several water points with potable water immediately available;
- We have maintenance team members on-site during the flushing of homes to address home access issues and/or any other maintenance items that came up during flushing; and
- Our teams are uploading all signed home flushing reports from the Navy and Army to our property management system, Yardi, for each home. This will become part of the maintenance history of each home.

Our teams at Hickam Communities and Island Palm Communities continue their strong partnership with the military services to ensure that the care for, and experience of, all directly and indirectly impacted residents remains top priority.

These are difficult challenges. While some are easier to foresee, others – like a hurricane or a fuel leak – come up whether or not you are ready for them. In response, we can only give our best effort, adapt as the situation warrants, and find a way to help the families that need us. I wish we could say that we handle every situation perfectly every time, but we are human, and despite our best efforts and intentions we make mistakes. When we make mistakes, however, we correct them – and make sure those mistakes are not repeated.

Conclusion

Congress created MHPI nearly 30 years ago, and at the time it was an innovative approach to rebuilding and restoring America's military housing without appropriated funding. It remains a successful program that has done tremendous good for military families at installations across the United States.

And, thanks to the collective efforts of Congress, our military partners, and our commitment to continuously improve, MHPI is an even better program today.

Lendlease is heartened by these improvements, and we look to the future with confidence and renewed optimism. The changes we have made to our own operations, the large new capital investments in addition to our continued collaboration with our residents and our military partners, mean we are better positioned than ever before to support our military families. By choosing to live in a Lendlease community, military families have placed their trust in us. You have my word today that we will never stop striving to be deserving of that trust.