RECORD VERSION

STATEMENT BY

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ON AN UPDATE ON UNACCOMPANIED MILITARY HOUSING AND THE MILITARY HOUSING PRIVATIZATION INITIATIVE

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I want to thank Chairman Bacon, Ranking Member Houlahan and the distinguished members of the House Armed Services Committee Quality of Life Panel for inviting me to provide testimony on the Army's Unaccompanied Housing (UH) and Military Housing Privatization Initiative (MHPI) programs. It is an honor to provide information in my capacity as the Deputy Assistant Secretary of the Army for Installations, Housing and Partnerships and share with you the Army's progress, objectives, goals, challenges, and keen focus on these two extremely important programs.

Quality of life, and in particular the opportunity for all soldiers and their families to live in safe, adequate, quality housing, remains at the very top of Army senior leader priorities. The Army leadership remains steadfast, and purposefully committed to improving the Army's housing posture, fully recognizing the linkage between the quality of our "housing" and the ability to recruit and retain a ready force. Our commitment is evidenced by our annual investment in UH, which now exceeds \$1.2 billion per year; our continued investments in the government-owned Army Family Housing inventory (mostly located overseas), 90 percent of which will be rated as GOOD (Q1)/ADEQUATE (Q2) by the end of Fiscal Year (FY) 2025, and our continued focus on improving MHPI oversight and program sustainability.

Under the Army's leadership and direction, we have made great strides in executing the MHPI-related actions directed by several National Defense Authorizations Acts (NDAA), beginning with the Military Housing Privatization Reform of 2020; and we have also implemented dozens of recommendations made by the U.S. Government Accountability Office (GAO), the Department of Defense (DoD) and Army Inspectors General, the Army Audit Agency and an independent third-party auditor. The Army is proud to have fully implemented the Tenant Bill of Rights (TBoR) in September of 2021, a foundational step towards re-establishing trust with our families. And, the Army has also included the provisions of the FY 2020 NDAA reforms in a MHPI ground lease, which is the foundational legal document that governs privatized housing projects. All new or modified Army ground leases will contain this language, which further strengthens project-level Army oversight.

Although we have made great strides in improving the MHPI program, we will continue to build on our progress. We very much appreciate and have carefully considered the GAO's recent reports on *Strengthening MHPI Oversight* and on *Improving Inspection Oversight and Long-Term Capital Investment Projections*, and we moved immediately to address the reports' recommendations. Our focus going forward is to continue to provide soldiers and their families with safe, quality, and habitable housing while also continuing ever-vigilant oversight of the MHPI program through enforcing standards, holding providers accountable, and ensuring long-term project sustainability and financial viability.

With respect to UH housing, the Army has increased its investments across all three components (Active, Guard and Reserve) from over \$1B/year to over \$1.2B/year on average across the Future Years Defense Program (FYDP). However, even with these increased investments, the Army cannot fully resource UH quality improvements and deficits through restoration and modernization (R&M) or military construction (MILCON). We currently have thousands of junior enlisted soldiers "doubling-up" in existing UH spaces or living off-post. Therefore, it is necessary to explore new ways to improve and better manage the permanent party UH inventory within the current FYDP.

Recommendations from the recent GAO Report - "*Military Barracks: Poor Living Conditions Undermine Quality of Life and Readiness*" - will assist us in further refining our focus as we continue to work initiatives to improve housing conditions for our single junior enlisted population. We are also conscious of the need to address the requirements of our Reserve components. A primary concern for both the Army Guard and Reserve is their ability to replace poor and failing Collective Training (CT) inventories where the average age of the inventory is more than 50 years. Both components anticipate increasing barracks space deficits as older facilities become uninhabitable.

We look forward to working with this panel and the Readiness Subcommittees of the Armed Services Committees to improve the quality of life for our treasured soldiers and their families.

Military Housing Privatization Initiative (MHPI) Program

Implementation of Tenant Bill of Rights:

The Army has worked closely with Congress over the last several years to enact and implement a wide-ranging array of reforms intended to improve and restore confidence in our privatized housing programs and ensure project oversight. The FY 2020 NDAA included many reforms, the most prominent being the TBoR. The FY 2021 NDAA extended many of these reforms to government-owned housing. The FY 2022 NDAA refined both government and housing company responsibilities and reporting requirements. The recent FY 2023 NDAA required, among other things, Housing Requirements Market Analysis standardization, briefings and related notices to Congress for ground lease extensions, and mold inspections, and implementation of medical audits.

The Army is diligently working to implement the reform requirements enacted over the past four fiscal years. While we have made very significant progress, we should assess the success of current MHPI improvements before adding new legislative requirements beyond what is contained in the 2024 NDAA. Additionally, many of the GAO recommendations follow-up on earlier NDAA provisions. At this critical juncture, we need to ensure these improvements are fully in place and effectively implemented. Doing this takes organizational investments of resources and focused leadership attention as every level.

In 2021, the Army fully implemented the MHPI TBoR at each of its installations. The TBoR empowers soldiers and their families as residents in privatized housing. It also affords them a stronger position from which to negotiate with private housing providers by establishing a transparent, coherent, and predictable process for resolving disputes.

The dispute resolution process component of the TBoR provides residents an effective means of resolving lease disputes with private housing providers. To date, 51 disputes have been initiated under the dispute resolution provision and the Army has informally resolved 45 of those disputes. The remaining six cases were addressed using the formal dispute resolution process; five are completed and one is ongoing. Although it appears the Army's dispute resolution process is working as intended, concerns reported to the GAO from residents drives the need for a corrective action plan to update the "Plain Language Brief" for improved communication. This brief is required by law to be provided to residents before they sign a lease with a housing provider and again following lease signing. The brief outlines the rights and resources available to the resident, as well as points of contact for the Garrison's Army Housing Office (AHO) and private housing providers. The dispute resolution process gives residents a strong basis for negotiations with the private housing provider. Further, by clarifying the responsibilities of all involved, the new brief will reiterate the Army's role as resident advocate through on-the-ground support from the AHO.

To further strengthen the effectiveness of implementation of the TBoR, the Army has initiated a Housing Program Review program to assess: (1) the effectiveness of the dispute resolution program, (2) further training needs for housing personnel, (3) the effectiveness of mandatory briefings to tenants, and (4) gaps in oversight and areas for improvement within the Army's overall execution of its privatized housing program.

Other MHPI Reforms:

In addition to the TBoR, the Army is implementing many other reforms. To ensure we have the right number of people to implement these reforms, and the proper mix of skills, we are conducting manpower studies for headquarters and garrison staffs. These studies will be incorporated into a Report to Congress that will identify the number of additional personnel needed at each installation, as well as headquarters locations, to provide the appropriate level of housing oversight for privatized, owned, and leased inventories. Early in calendar year 2020, the Army added 116 personnel to its AHOs to

kick start reform processes at the installation level. Any further increases in manpower will be in addition to these hires.

Command engagement is critical to the effectiveness of the Army's oversight of the privatized housing portfolio. In 2020, the Army updated its Portfolio Asset Management Handbook, clarifying the roles and responsibilities of Installation Commanders, the Commanding Generals of the Army Materiel Command (AMC) and Army's Installation Management Command, as well as the Army staff and Secretariat, in the planning, execution and oversight of the privatized housing portfolio. The Army has clearly established the role of commanders as essential and critical to the success of this program. The Army also stood up a Housing Council during 2021, co-chaired by the Assistant Secretary of the Army (Installations, Energy and Environment) and the Commanding General of AMC. The Council convenes the private housing providers and senior Army leaders at least once a year to discuss the State of the Portfolio, issues, challenges, and potential solutions. It has proven to be an effective platform to share lessons learned and establish action plans for issues that need to be remedied and improved.

Other reforms implemented by the Army include: initiation of house-by-house inspections (applying the DoD's basic housing standards and code modeled off of the International Property Maintenance Code); comprehensive financial and operations reviews of each project on a 5-year recurring cycle; quarterly performance reviews with the Office of the Secretary of Defense; standardization of project-level Incentive Fee Performance Plans; and revision of language in underling legal documents (ground leases) to include addition of statutory language from NDAA 2020, executive orders, enforcement provisions, and application of the Davis Bacon Act. The changes to project legal documents strengthen the Army's ability to hold private housing providers accountable.

Additionally, working with the Military Housing Association, the Army is establishing a standardized Quality Control/Quality Assurance (QA/QC) program to be applied by its

six private housing providers across its entire portfolio. Implementation of the QA/QC program will create a significant degree of certainty in applying best practices across all projects.

Program Sustainability:

• Challenges

As the MHPI program approaches its midpoint of the 50-year agreements, and initial development plans are completed, the challenge becomes one of program sustainment to ensure project viability. Projects are funded entirely through service member Basic Allowance for Housing (BAH) and rents collected from other eligible residents, such as affiliated civilians and retirees. Each month funds remaining after payment of operating expenses, debt service, insurance, utilities, etc., flow into project reinvestment accounts, which are used for recapitalization of assets. Due to a wide-ranging set of challenges, such as higher than expected operating expenses, lower than projected increases in BAH, dramatically increased insurance and utilities rates, inflation and the high cost of materials and labor, the projects are not able to fund their reinvestment accounts sufficiently to fully address redevelopment needs as envisioned at project establishment. This is consistent across most existing Army MHPI projects. Even with return of the 5% BAH reductions to projects and the ability of most private housing providers to move funds, as needed, between projects, based on financial forecasting models, the future accrual of cash flow into reinvestment accounts will not sufficiently meet the future sustainment needs and recapitalization of the housing inventory.

At the outset of the program, the Army utilized the private sector debt markets to invest significant funding into the inventory. However, this initial funding was not sufficient to improve the entire privatized housing inventory to a "new" or "like-new" condition. To date, private housing providers have built or replaced approximately 35,560 homes and completed significant renovations on another ~31,570 homes. This leaves about 19,000 homes, including historic housing, that have received limited or no renovation work since the program's inception.

The Commanding General of AMC recently led an analysis to determine the 10-year capital needs of the privatized housing inventory. The goal of the analysis was to assess the amount needed to ensure every home in the inventory will be either newly built or significantly renovated by 2033. The assessment projected a funding shortfall of approximately \$6.4B to achieve the stated goal. This analysis has become the Army's strategic blueprint for future sustainability. Given the shortfall in funds needed to address every home in the privatized housing portfolio, the Army is analyzing various methods to increase capital investment over the near term while attempting to reduce sustainment costs. The long-term financial viability and sustainability of the program must be addressed. We look forward to working with Congress to find solutions.

Potential Mitigations

1) Third-Party Investments with or without Ground Lease Extensions

Among the ways to bring additional funds into a project is to refinance the existing project or portfolio debt, or to obtain additional capital investment. The Army evaluates the merit of acquiring new debt on a case-by-case basis. Some projects will require extension of existing ground leases to enable the generation of enough loan proceeds to fund adequate recapitalization. The Army's evaluation weighs the long-term cost and financial viability of a potential third-party investment against the near-term needs of the project or portfolio. For example, it may not make sense to execute a new loan that creates significant debt to the project if there is no immediate need for the cash flow to fund improvements that could otherwise be paid for out of the project's cash flow and existing reinvestment account balances.

In some cases, for example the recent third-party investment of \$1.1B in the Lendlease portfolio for recapitalization at Forts Cavazos, Texas; Fort Campbell, Kentucky; and Fort Knox, Kentucky, there were immediate needs at all three installations and ground lease extensions were not required. The Army is currently working closely with Balfour Beatty Communities (BBC) as it seeks to pay off the existing debt at Fort Carson, Colorado through a new loan and ground lease extension that will address the immediate needs at Fort Carson and potentially generate enough capital to move some millions of dollars

to other BBC projects that require attention. Currently, given the significant increase in interest rates, obtaining private sector investment through the utilization of debt may have long-term impacts to project financial health. The debt a project accumulates through these investments is paid off by the project and affects the amount of funds available for movement to the project's reinvestment account over the length of the loan.

2) Service Equity Contributions

Military Department equity contributions to a privatized housing project may, in some instances, be the best option to improve housing quality for service members. In the Army's case, the FY 2024 President Budget requests equity contributions of \$50M each to support housing recapitalization at Fort Gordon, Georgia and Fort Leonard Wood, Missouri. In the case of Fort Gordon, the installation has materially changed its mission from the home of the Army's Signal School to the Cyber Center of Excellence, thereby creating great demand for additional housing. At some installations there were minimal BAH increases over past years, despite rising increases in privatized housing operations expenses and utilities, depleting funding in reinvestment accounts to unacceptable levels. Limited funding in project reinvestment accounts makes it difficult for privatized housing companies to renovate or rebuild housing needs and not into the coffers of the provider. Equity contributions to address these immediate needs are more cost-effective when considering the cost of project debt accumulated through third-party investments.

3) Land Sales

Proceeds from the sale of land that is excess to the Army's needs may be used to fund privatized housing projects. This is an untapped source of funds across all Services and should be considered as we look seriously at how to best sustain this program. The Army is currently in the process of generating funds from a land sale at Fort Bliss, Texas. Proceeds from the sale will be used to address the immediate needs of the Fort

Leonard Wood privatized housing project. The Army will continue to look for land sale opportunities to generate resources for its privatized housing portfolio.

4) Changes to Standards

On average, the homes being constructed, as part of the Army's privatize housing portfolio, are not affordable based on the revenue they generate. Contributing factors over the past five years include inflation, supply chain and labor market problems associated with the pandemic, and overall macro-economic conditions. Based on a recent evaluation, the Army has determined there is a significant disconnect between how BAH is calculated and the cost of constructing or renovating a home, given the current profile of Army families. In many cases, a member may be assigned to housing of a type greater than the BAH rate is calculated to support. For example, BAH is calculated based on the rank of the soldier and tied to a specified housing profile or "anchor point" (e.g., 2-bedroom apartment for junior enlisted, 3-bedroom townhome/duplex for more senior non-commissioned officers, and 4-bedroom singlefamily dwellings for more senior officers, etc.). Thus, a junior enlisted member residing in privatized housing in a 3-bedrrom townhome would still only receive the BAH for a 2bedroom apartment. Furthermore, the Army's privatized housing portfolio currently contains 2,175 homes with 5-bedrooms, yet there is no corresponding BAH calculation for that home profile. This equates to a home that is constructed at a greater cost than the BAH will financially support.

An additional factor that drives up the cost of housing is required compliance with federal statute and regulations that are not applied in the private market in which the BAH is calculated. This results in a BAH amount that is based on a home with fewer regulatory requirements than what is being required or provided by the private housing providers.

To alleviate these problems, the Army is evaluating alternative construction methods, including prefabricated and modular homes, as well as new technologies, such as 3D-

printed homes. Most importantly, we are considering moving away from wholesale home replacement to focus on affordable renovations to the existing housing stock.

Good News on the MHPI Front:

As this portfolio provides an array of challenges that we are working through, there are many successes to share.

• Small Installations Privatization Initiative (SIPI)

On 1 August 2023, the Army acquired 51.7 acres of land in Doral, Florida, from the Federal Aviation Administration enabling the Army to plan a privatized housing community for unaccompanied soldiers and families assigned to the Miami, Florida area and U.S. Southern Command (USSOUTHCOM). The initiative is part of a new privatized housing project known as SIPI which leverages revenue from the existing inventories at six small Army installations to fund the construction of 75 family homes and 60 UH apartments adjacent to USSOUTHCOM Headquarters. This is the first new Army MHPI project in 13 years and will provide much needed housing for service members and family assigned to this high-cost area.

Investments in Energy Resilience

The Army is collaborating with experts from the private sector to achieve near-term goals for reducing the agency's energy dependence and carbon footprint. MHPI providers continue exploring options for implementing sustainable and energy-efficient features in privatized housing. The Army has approved, and private housing providers have installed, solar energy projects for over 63 MW of electric generation on multiple Army installations. As an example, Corvias has installed solar panel systems at Fort Riley, Kansas, which provide a 40% offset of annual electricity consumed in housing. Corvias and the Army are currently completing due diligence to add additional solar panels at Fort Riley that would offset over 80% of required housing-related electric usage. Electric Vehicle Level 2 charging is incorporated into the construction plans for privatized housing in Miami. The Army recently approved a unique battery storage system in Hawaii which would offset up to 90% of the energy used in applicable homes.

Finally, all housing providers continue to increase sustainability of housing by installing LED lighting, high efficiency heating, ventilation and air conditioning systems, and other energy saving improvements.

Historic Housing

An important milestone to improve the quality of historic housing and bring more efficiency to the renovation process was the Army's successful implementation of Program Comments to achieve compliance with the National Historic Preservation Act. Three Program Comments are in implementation, addressing homes from the Inter-War (1919-1940), Capehart and Wherry (1945-1962), and Vietnam War (1963-1975) eras, giving privatized housing companies the ability to demolish and/or renovate historic homes which were constructed during these periods and allowing the use of imitative materials rather than the more expensive original materials previously required. For example, at Fort Belvoir, the privatized housing project realized cost savings of \$5M by replacing historic windows with a modern substitute material and \$4.5M by using synthetic slate vice stone slate roofing on 76 homes. Work with the historic preservation community and the Advisory Council on Historic Preservation is ongoing to address pre-1919 historic housing to achieve similar results.

Single and Unaccompanied Soldier Housing (UH, Barracks)

Current UH Status:

The Army has three types of UH – permanent party (PP), institutional training (IT), and CT. There are currently 6,776 UH buildings comprising approximately 190,000 PP spaces, 110,000 IT spaces and 180,000 CT spaces. Collectively, 77% of these buildings are at or above a Facilities Condition Index of 80, or Q1/Q2, good and adequate condition, which leaves 23% of the Army's barracks spaces in poor and failing condition. In addition, the Army's UH deficit for junior enlisted PP UH stands at 25,000 K spaces, which is about 13% of the total PP UH requirement. As the Army moves and relocates formations to support Army readiness and modernization and as it makes improvements to PP UH construction standards and space allocations, the PP UH deficit is expected to grow. Five installations currently account for nearly half of the PP

UH shortfall: Fort Cavazos, Texas; Fort Stewart, Georgia; US Army Garrison Ansbach, Germany; Base Poznan, Poland and Fort Riley, Kansas.

Even though the Army has invested significantly in barracks, the sheer size of the existing inventory, along with deferred maintenance, insufficient recapitalization funding, the large PP UH deficit and poor management practices, such as assigning the management of barracks as an additional duty to Soldiers who are already very busy, have all contributed to the current barracks situation. Significant and sustained investment, as well as use of other management tools, are needed to improve the Army's current UH posture across all barracks types.

Understanding Resourcing Requirements:

Earlier in 2023, the Army took concrete steps to try to better understand how to resource PP UH requirements.

In June of 2023, the Assistant Secretary of the Army (Installations, Energy and Environment), the Deputy Chief of Staff, G-9, U.S. Army and the Sergeant Major of the Army issued the *Army PP Barracks Resourcing Strategy* (ABRS). The ABRS lays out a strategy and resourcing opportunities within the Army's Facilities Sustainment, Restoration and Modernization and MILCON programs to impactfully change the current state of Army PP UH. The strategy provides leaders with a prioritized "pick list" that recommends as the highest priority full sustainment of the PP barracks inventory. As a result, the Army has made the decision to attempt to fund sustainment for all types of barracks to 100% of the requirement in the FY 2025-2029 program. However, even when the inventory is fully sustained, about 20 PP UH buildings a year will move into the category of poor and failing as they approach the end of their useful lives. Continued and improved investment levels in R&M and MILCON are required under all scenarios.

In the ABRS, the Army defines the minimum conditions for "quality housing" in terms of safety, security, module configuration and condition as follows:

- <u>Safe</u> No environmental safety hazards; must have operational fire detection and suppression systems and adequate egress.
- <u>Secure</u> Lockable exterior and interior doors. Ability to secure belongings within the room.
- <u>Module Features</u> For E1-E4, a private sleeping room with a net area of not less than 90 SF/soldier; no more than 2 soldiers sharing a bathroom; and a shared kitchenette with a cooktop and microwave oven. Fort E5-E6, the same, except a private sleeping room that must be at least 135 SF. For all, easily accessible communal laundry, functional furnishings and appliances, and internet ready.
- <u>Condition</u> Building Facility Condition Index of 80 (equates to Q1/Q2) or higher; individual system (e.g., HVAC) condition index at 70 or higher; and functional utilities.

Importantly, the ABRS makes clear that Chain of Command must execute their responsibilities under the Army Barracks Management Program. Installation personnel are directed to prioritize Preventive Maintenance and Demand Maintenance work orders.

Army's Strategy to Provide "Quality Housing" to All Soldiers:

The most expeditious way to improve single and unaccompanied soldier housing is to increase funding to priority projects. The Army has recently increased its investment from an average of over \$1B to \$1.2B/year. However, even with this significant investment, we predict it will be difficult to maintain or improve the overall condition of the inventory. Also, the Army must address its growing barracks deficit numbers; deficits that are created through stationing actions and improvements in barracks standards which has the unintended consequence of reducing available bed spaces in the PP UH inventory. For example, we are now renovating some barracks to a new construction standard which increases floor area, but therefore decreases the number of available bedspaces. While this serves to improve housing quality and soldier experience, it also generates the need for more soldiers to reside off-post and/or in lesser quality housing. The solution to providing "quality housing" for all soldiers does not reside in a single

approach, but rather in the use of multiple approaches and tools, some of which are described below.

Prioritize Investments Differently

Focused investment in barracks will ensure that "quality housing" is provided to populations and demographics that most need it. If the Army prioritizes fixing housing for junior enlisted population at installations where there are significant troop concentrations, it may be able to better reach the highest need. At installations with more senior populations, perhaps the solution is to allow off-post housing, thereby reducing overall UH requirements.

Use Under-utilized Privatized Family Housing

Many of the Army's privatized housing projects house members from the civilian population working on the installation, or military retirees. Instead, these homes could be used to house PP single and unaccompanied soldiers through a BAH funding stream. This could assist in decreasing overall PP UH requirements on the installation. The Commanding General of Fort Johnson, Louisiana, is currently housing single soldiers in privatized family housing while the installation's PP UH are under renovation. There have been no issues with this arrangement to date.

• Privatize Some UH

Though the time is not ripe to consider privatizing UH in a wholesale manner, there are certain locations where privatized barracks may make sense. In fact, the Army has 5 privatized UH projects at Fort Stewart, Georgia; Fort Liberty, North Carolina; Fort Drum, New York; Fort Meade, Maryland, and Fort Irwin, California. These projects typically house more senior enlisted personnel and are not managed as PP UH would be. For example, unit integrity is not maintained in these projects. A sixth privatized UH project is being established to support the service member population in Miami as part of SIPI. The Army is currently evaluating the possibility of privatizing select additional UH projects. We believe privatization will likely be feasible only at certain locations.

Policy and Process Improvements:

As previously mentioned, recommendations from the pending GAO Report - *Military Barracks: Poor Living Conditions Undermine Quality of Life and Readiness* - will assist the Army in improving living conditions for our single junior enlisted population. Lessons learned over the past year, and as described below, also serve to update policy and procedures to better address the management of our UH inventories.

Contained in the ABRS is a line of effort (LOE) to improve barracks' management. The LOE requires issuance of an updated Army Barracks Management Program (ABMP) with three initial tasks. First is the direction to establish installation Senior Commanderapproved barracks policies which improve program oversight through clear unit responsibilities, metrics, scorecards, public heath assessments and performance reviews. Second is the promulgation of Army guidance on increased flexibility in barracks assignments where necessary. And third is direction for the installation Senior Commander to conduct a periodic survey to assess soldier satisfaction with living conditions.

Much more work is needed to improve single and unaccompanied soldier housing. However, the Army is making great strides in fully understanding the depth and breadth of the issues. We will continue to work with you and our Oversight Committees to develop effective programs and policies to better manage our UH programs.

Conclusion

In closing, the Department of the Army recognizes the need to continue to improve the conditions of housing inventories and services– whether the property is Army-owned or owned and managed by private housing providers. We appreciate your continued interest, involvement and oversight, as well as that of the Armed Services Committees - Readiness Subcommittees, in matters pertaining to the Army's housing portfolio. Thank you for the opportunity to testify on these critical programs and to their importance to maintaining a ready Army. We look forward to working closely with the panel as we seek to ensure flexibility in authorities, timely and predictable Authorization

Acts and enabling legislation as required to significantly improve the Quality of Life for our soldiers and families.