

**Statement by John G. Picerne  
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**Before the House Armed Services Subcommittee on Readiness**

**December 5, 2019**

Thank you for the opportunity to appear before you today.

My Name is John Picerne and I am the Founder and CEO of Corvias.

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 and founder-led company. We partner with hundreds of small, minority-owned, disadvantaged subcontractors to provide an outstanding resident experience to those service members 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 62 veterans who, as employees, work at the installation level, often directly with residents. 97 of our colleagues are spouses or dependents of active duty service members.

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 service members 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 -- that will have us back to right where we were in late 2018 if we don't tackle them.
- Third, what will help make MHPI a healthy, sustainable program that meets the housing needs of service members in the many years ahead.

It was about a year ago 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 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. As of last month, nearly

4,700 work orders have been submitted via the portal. For those 4,700 work orders, we are pleased to report a 92 percent satisfaction rating on work performed and 95 percent of work orders completed on time.

- 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 well over 100 permanent 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.

Altogether, more than 160 meetings and events this year in communities we serve have provided residents the opportunity to let us know what's on their mind. This direct feedback helps us do better. It helps us spot problems in the early stages.

We also got to work on reducing the number of open service requests and lingering issues. This year, our service techs put in nearly 50,000 hours of overtime to work down any backlog and respond to resident requests. In 2019, we have completed more than 330,000 service requests.

Our residents tell us that community amenities – like recreational facilities – make a big difference in their quality of life. So 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 also did a better job of keeping our military partners informed. We are meeting regularly with military leaders – both on post 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.

These and other steps 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 most important – we 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.

This type of direct investment 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 service members into newer homes, while freeing up resources that were previously tied up in trying to maintain an old home well past its prime.

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.

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. With our partners in the military and working closely with our residents, 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 build hundreds of new 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 post 9/11 security requirements at the installation front gate.
- **Older homes** that require significantly more resources to keep them running.

Individual service members' 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 paying up to five percent of rent, out of their own pockets.

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 service members with dependents **decreased** an average of \$100 per month for each service member – or \$1,200 per year, 6.2 percent -- from 2014 to 2018.

All of those changes mean fewer dollars flowing into the program: that puts the economic model out of balance. In practical terms, it creates a serious dilemma: do we fund current resident services at the expense of longer-term improvements?

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. After 9/11, security at military installations increased massively. Getting our contractors, equipment and supplies through the front gate used to take a few minutes: overnight, waiting times were suddenly more like 1-2 hours. We had cement trucks turn back before they got to the construction site -- because their concrete hardened while waiting to get on to the installation.

At Fort Meade, we ended up reallocating program funds to build a special gate, just for our contractors and suppliers, to reduce their time spent waiting.

Our partnerships with the military absorbed these costs – as well as the impact of lower revenue – by finding 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. 46 percent of the homes in our Army portfolio – nearly 10,000 all together -- were built before 1980. We even have some homes – still active and renting – that

date back to 1870. 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.

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, make sure that the FY2020 NDAA does not end up weakening the partnerships' ability to provide a quality resident experience. The current draft includes a number of provisions that would, among other things, cripple our ability to attract outside investment. It is outside investment that has us now breaking ground on new homes and improving thousands of others. The partnerships need more, not less.

Second, let's work together to make it easier for the MHPI program to attract outside capital. While we now have \$325 million being invested, it wasn't easy to get to where we are. Reverting to the original OMB scoring for MHPI would make it that much easier to get non-government dollars improving military resident communities.



Third, let's take a bigger look at the condition of our communities – both housing and the infrastructure below. We're building several hundred new homes with our infusion of capital: we need to build thousands. How can we increase the pace of home construction, retire more aging housing and offer more service members and their families a newer home option? That's going to take structuring new investments beyond what the current MHPI economic model can generate.

The overwhelming majority of military resident communities are facing an infrastructure crisis today – different from the civilian world only in that it's worse on military installations. While outside investment helps us chip away at the problem of old, decaying homes, we're not addressing what powers those homes, provides water, even access. That's the next big challenge we face.

Congress can also help by empowering the DoD to work with all MHPI partners and develop common standards and practices -- across every MHPI community, at every installation. While there's work being done, more can and should be done. This will give residents a universal standard of service, a consistent set of expectations and an even service experience as they move from one home to the next.

Common training for partners, Garrison staff and residents, too, will ensure that all participants in the program are on the same common ground.

Finally, it's essential that we live by the original intent of the MHPI program – as a true partnership. The partnership model enables us to meet new challenges, to evolve the program as conditions change. When we – the private sector, the military – stay closely engaged and work together as partners, the program thrives. We achieved a higher level of engagement and partnership this year. Let's not lose that with the passage of time.

Let me close by saying how fortunate I feel to serve in this capacity. When I was first introduced to the massive, systemic challenge facing the Department of Defense with its struggling housing program, I was moved by how poorly we, as a nation, were caring for our military personnel in what is the most personal way of all -- their homes.

The DoD was committed to creating a real, long-term solution. With our experience, I believed we were well-suited to help.

When I founded our company some 20 years ago as a division of my family's third generation, real estate development firm, we set out to create something that could fix the problems of today and solve the problem for the future. After 9/11, it went from a job – an important job – to something much more.

And while we have lots of programs, plans and ideas, it is the beating heart of our history with the program, a deep, personal commitment, that drives our every effort to do right by our residents.

Thank you.