

WRITTEN STATEMENT

Prepared statement by Richard Taylor, President, Facility Operations, Renovations and Construction, Balfour Beatty Communities

Before the Subcommittee on Readiness of the House Armed Services Committee

Hearing on “Privatized Housing: Are Conditions Improving for Our Military Families?”

December 5, 2019

I. INTRODUCTION

On behalf of Balfour Beatty Communities, I would like to begin by saying that we sincerely apologize for having fallen short of the high standards our nation’s military families deserve. We fully accept that we must make improvements, and we are determined to regain the trust and confidence of our residents and our military partners.

Balfour Beatty Communities welcomes ongoing Congressional interest in privatized military housing, and I want to assure you that we share your commitment to promoting the safety, health and well-being of our service members and their families.

Before addressing some of the improvements we have already made, please permit me to provide you with a brief summary of my personal background. Following a recent reorganization of the management team at Balfour Beatty Communities, I now serve as the president of Facility Operations, Renovations and Construction, and have overall responsibility for the Facilities Management function of the company’s military housing portfolio. I direct nearly 70% of our military housing workforce. My responsibilities also cover the execution of all renovations and construction activity associated with the renovation of homes, grounds, roads and infrastructure at on-base military housing communities across the United States. I am a Navy veteran, a civil engineer, and a champion of public-private partnership ventures. Before becoming involved in leadership roles in the management and operation of military and student housing, I held the position of Civil Engineer Corps Officer in the U.S. Navy for over twelve years. In my last Active Duty assignment, I served as the Officer in Charge of Construction for the U.S. Navy field office at the Naval Air Station in Willow Grove, Pennsylvania, responsible for construction management at U.S. Navy and Marine Corp facilities throughout Pennsylvania, New York and New Jersey. I held a Naval Facilities Engineering Command (NAVFAC) Contracting Officer warrant and executed several hundred million dollars in construction and facilities support contracts.

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.

The Balfour Beatty Communities team has been a leader in the U.S. residential real estate market for more than 20 years. Today, 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 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. ALLEGATIONS OF FRAUD

Balfour Beatty Communities takes the allegations that work orders were handled inappropriately very seriously. We have instructed external counsel, Hunton Andrews Kurth LLP (Hunton), to investigate the allegations and the way in which work orders were processed. To assist in the investigation, Hunton has appointed PricewaterhouseCoopers Advisory Services LLC to perform a forensic audit work plan under AICPA consulting standards relating to our submission of requests for incentive fee payments. The Hunton investigation covers our entire military housing portfolio and is expected to take several more months to complete. If it is determined that we did not properly earn incentive fees paid to us, we will refund those amounts. If the investigation determines wrong-doing by any member for our staff, we will take appropriate action.

When broader allegations were made in June, we proactively reached out to the Department of Justice (DoJ) to notify them of Hunton's review. The DoJ subsequently issued a Civil Investigative Demand and we have been cooperating with their investigation.

In addition to the Hunton investigation, Balfour Beatty Communities has also undertaken an extensive internal review of our work order processes. Based on this review, we already have implemented several important changes and improvements across our military housing portfolio, including providing a mobile device app for residents to enter, track and sign-off on work orders, and changes to our staffing and remediation processes to ensure we have appropriate resources and checks and balances in place to properly manage our military portfolio. We also are focused on making changes to improve both the experience and living conditions for our residents.

IV. TRANSFORMING OUR APPROACH

The responsibility to provide safe, high-quality housing for the men and women of our country's armed services is of the utmost importance and we are fully committed to transforming the way in which we operate in order to ensure we accomplish this mission. To do this, we have initiated several significant changes.

Organizational Changes

We have recently restructured our senior leadership to strengthen the alignment of responsibilities, authority, and accountability. Specifically, we have split the roles of Community Management, which is responsible for customer service and support and community leasing activities, and Facilities Management, which is responsible for maintenance. This realignment will allow the Facilities Management function, for which I am responsible, to have more focused technical oversight and provide greater management support.

We are in the process of appointing a senior executive to serve as the Transformation Director for Military Housing. The Transformation Director will be responsible for ensuring that an appropriate change management program is in place and will focus on coordinating all policy and process changes and improvements that are being made across the company's military housing portfolio to ensure they add value, are appropriately integrated, and effectively delivered.

We also have significantly bolstered our staff and third-party contractor resources. Specifically, we have increased our military housing staffing levels by 130 positions in the last nine months. We have also supplemented our local teams by engaging more third-party specialist contractors, including an HVAC servicing and maintenance company, environmental remediation firms and industrial hygienists.

We have implemented more robust performance metric tracking and reporting, including key performance indicators related to resident satisfaction, work orders, displaced residents, preventive maintenance, occupancy, staffing levels and special projects. And, to reinforce management focus and ensure resident and partner expectations are being met, we have increased installation visits by members of senior Balfour Beatty Communities management. This will allow us to gain insights into challenges being faced by local teams so that support and resources can be allocated appropriately, and help improve engagement with residents, Installation Commanders and their military housing offices.

Improving Maintenance Services

Balfour Beatty Communities recognizes that a key aspect of delivering a high-quality living experience is providing responsive, effective maintenance services. While we deliver high-quality maintenance services at most installations, we fell short at some, and we realize this has resulted in a loss of confidence in our ability to be responsive to our residents needs.

In addition to realigning our leadership structure, we are taking additional steps to ensure the consistent delivery of responsive and effective maintenance services across our military housing portfolio. These include:

- **Strengthened oversight and quality control of repair/maintenance work.** We have hired Quality Control Specialists who are responsible for inspecting and approving all completed life, health and safety-related work orders and for conducting random checks on all other completed work orders.

- **Improved work order process transparency and ease of use.** We are making it very simple for residents to report any issues with their homes through the use of Yardi – a mobile app available both on their phones and on the internet. We are continuously enhancing the work order platform to increase resident transparency and control and we are actively encouraging residents to use the app to submit and track work orders online, giving them increased visibility into the process. As a result of our marketing and resident outreach programs approximately 80% of our residents have downloaded the app. Finally, we are empowering residents by requiring their sign-off on completed work orders.
- **Improved work order system controls to ensure integrity of data and process.** Work orders can no longer be cancelled by Balfour Beatty Communities staff. Work orders can only be cancelled by a member of the Corporate Business Support team and require a detailed explanation and the approval of a senior manager.
- **Established a uniform Temporary Relocation policy** which provides a consistent approach when dealing with a family that has to be relocated in order to carry out maintenance work in their home.
- **Outsourcing HVAC maintenance to third-party specialty contractor.** We have engaged a national, licensed contractor, managed at the local installation level by the Balfour Beatty Communities Facility Manager, and they will provide comprehensive HVAC services, including annual inspections, preventive maintenance and routine servicing.
- **Continuing a comprehensive evaluation of the work order system and processes.** This includes identifying and implementing improvements to work order policies, procedures and training on the Yardi work order system to improve performance and controls.
- **Implementing ongoing technical training and education programs.** Facilities Management employees are required to take courses to refresh technical skills for the specific services they provide. We have also appointed an experienced Vice President of Training to oversee the development of a robust training program across the company. This will include customer service training and training related to maintenance work order policies and procedures to ensure accurate recordkeeping. This training executive is assessing our existing training programs and, where necessary, revising them or developing new ones to ensure that we are properly aligned with service industry best practices.

Improving the Resident Living Experience

Delivering an exceptional living experience to military members and their families who call our communities home is Balfour Beatty Communities' top priority. We have many examples of excellent customer service across our portfolio, as evidenced by improving resident satisfaction

scores and we recognize the need to embed that level of resident experience consistently across our portfolio and our culture.

We have reorganized our management structure to drive more focused oversight and development of our key resident-facing functions, we have increased our local staff resources and added new technologies and programs to significantly improve communication with residents and, particularly, their experience with work orders. In addition, we have implemented other changes specifically intended to improve the living experience for our residents.

- **Further enhancing resident engagement, communication and transparency.** We have added new Resident Engagement Specialists at multiple locations. These individuals monitor resident needs and feedback through frequent interaction and outreach, assist with service-related questions, help new residents get settled and continuously identify opportunities to improve the overall resident experience.
- **Completed additional workforce training to reinforce company culture and expectations.** We have delivered mandatory live Code of Conduct training to all our military housing employees to underscore the importance the company places on business integrity and ethics. In addition, we have given 'BBC Exceptional Customer Service' training to all employees to refresh their understanding of best practices and management expectations and given in-person Work Order Process training to all Work Order Administrators.
- **Creating a more robust employee learning and development program to improve services being delivered to residents.** We have appointed an experienced Vice President of Training, who reports directly to operational leadership, to oversee development of a redesigned training program for all employees.
- **Conduct lifecycle analysis of military housing portfolio** to identify where short and long-term housing improvements and/or replacements can be made to achieve and ensure a consistently high standard across all our military communities. As part of this initiative, we will collaborate with the Department of Defense and each Military Service to determine alternative financing solutions—beyond standard capital repair, replacement and reinvestment accounts—to execute lifecycle improvements more quickly than current funding sources allow.

Safely Managing Environmental Hazards

Many homes in our military housing portfolio were constructed prior to 1981 and, as a result, they may have asbestos-containing building materials and/or lead-based paint. In addition, in certain geographies, extreme heat and humidity have created moisture-related issues that could prompt higher incidences of mold growth. Additionally, we closely monitor other regulated environmental hazards. The health and safety of our residents is always our top priority. We fully recognize the importance of carefully managing environmental hazards.

Below we highlight the specific actions we are taking to ensure these hazards are carefully managed according to rigorous protocols across our military housing portfolio.

- **We have hired Regional Environmental Specialists.** The new team members, who report to our Environmental Director, advise local teams, monitor environmental processes and projects, and manage resident communications on environmental repair/remediation work. In addition, we have retained a third-party expert mold remediation firm to advise on enhanced protocols and procedures.
- **We are enhancing mandatory environmental training for all Facilities Management employees.** All Facilities Management employees are required to participate in mold/moisture, asbestos and lead-based paint courses annually. In addition, all employees authorized to engage contractors are required to have a thorough understanding of the company's contracting policies and procedures, with a specific focus on requirements for work being performed in older homes where environmental hazards may be present.
- **We are improving quality assurance on environmental work orders.** We have engaged Quality Control Specialists to inspect completed environmental work orders and validate work performed where we have experienced significant incident levels that require additional resources.
- **We have increased monitoring of all homes for mold/moisture issues.** Enhanced inspections of all homes for mold/moisture issues, with a specific focus on HVAC systems, will be conducted during annual preventive maintenance visits.

Improving Operations at Tinker Air Force Base

The multiple challenges at Tinker AFB have caused disruption and dissatisfaction for many residents. Our local team has been focused on managing crises which has negatively impacted overall customer service and maintenance support for our residents. This has resulted in an increase in complaints, reduced occupancy and a general loss of confidence in the Balfour Beatty Communities team.

Addressing these issues has proven both complex and difficult and we have continued to make adjustments to ensure we have the right resources in place. We take ownership of the situation and have recently increased available resources, enhanced policies and procedures and put in place long-term, sustainable solutions.

We will continue to work diligently to address the root cause of the mold/moisture issues. Nevertheless, we know the climate in the region will always present a challenge and we will continue to vigilantly monitor conditions in all Tinker homes, as well as seeking to educate residents on mold and its relationship to climate.

We are complying with the Air Force's request to provide a Performance Improvement Plan, which will include specific actions being taken to address issues at Tinker AFB, including work related to the HVAC systems. The plan is comprehensive and demanding. We have been in discussions with the Air Force on its content and will present it for their review later this month.

VI. COLLABORATING TO IMPROVE MHPI

We share a common interest with Congress and our military partners to provide a quality living experience for service members and their families. We have listened carefully to our residents, the Military Services, the Department of Defense and Congress and remain committed to working with each of those stakeholders—and the other MHPI developers—to continuously improve the quality and sustainability of military housing projects in each Service Branch.

We support many of the MHPI provisions offered in the House and Senate versions of the National Defense Authorization Act and we have been actively participating in meetings with DoD to help implement these enhancements. Some of those include:

- Creating a Tenant Bill of Rights
- Implementing new transparency measures for residents
- Standardizing the resident experience including move-in/move-out processes, establishment of a common lease, and developing a dispute resolution process
- Development of uniform mold policy
- Development of resident displacement policy
- Collaborating with Services on incentive fee metrics

VII. CONCLUSION

In summary, over the last 9 months we have made significant changes to improve the living conditions for our military residents and their families. Some of those changes are summarized below.

- We have changed the leadership of our organization to ensure we align technical and customer service responsibilities appropriately.
- We have implemented extensive changes to our work order processes and the way in which we verify incentive fee submissions.
- We have increased staffing levels, adding quality control and environmental health specialists and retaining third-party contractors to provide specialty services, particularly for HVAC maintenance and servicing and mold remediation.
- We have strengthened oversight of the management and handling of potentially hazardous material.

When the Hunton investigation is complete, we expect to implement even more improvements to our processes and procedures as their findings may require.

Thank you for the opportunity to testify today. I would like to reaffirm, personally and on behalf of Balfour Beatty Communities, our commitment to providing our service members and their families with safe, quality homes, and to ensuring that they are supported by responsive, professional property management personnel who deliver excellent customer service.

Our goal is to provide our residents with outstanding customer service and high standards of maintenance. That is the obligation we owe to service members and their families who choose to live in housing for which we are responsible. Achieving this goal is of the utmost importance to me in my new role.