

RECORD VERSION

STATEMENT BY

**THE HONORABLE RACHEL JACOBSON
ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS, ENERGY, AND ENVIRONMENT)**

BEFORE THE

**SUBCOMMITTEE ON READINESS
HOUSE ARMED SERVICES COMMITTEE
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ON AN UPDATE ON THE STATE OF ARMY HOUSING AND AGING INFRASTRUCTURE

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HOUSE ARMED SERVICES COMMITTEE**

I want to thank Chairman Waltz, Ranking Member Garamendi, and the distinguished members of the Subcommittee on Readiness of the House Armed Services Committee for inviting me to provide testimony on the Army's housing programs and how we are addressing our aging infrastructure, including our Organic Industrial Base inventory. It is an honor to represent the Army in my capacity as the Assistant Secretary of the Army for Installations, Energy, and Environment and share with you the Army's goals and challenges, as well as the progress we have made on these important infrastructure issues.

The opportunity for all soldiers and their families to live and work in safe, high-quality environments remains at the very top of Army senior leader priorities. We remain steadfast and keenly focused on improving the Army's infrastructure and housing inventory. We recognize the linkage between the quality of our housing and the ability to retain a ready force.

The challenges facing the Army with family housing and housing for unaccompanied Soldiers have built up over decades and will not be solved in a matter of months. The Army's senior leaders are taking concrete action to improve the living experience for our soldiers and families. The Army is moving forward in a number of areas to tackle these challenges, including conducting a top to bottom review of requirements and conditions, strategically directing resourcing to improve the inventory, improving management and oversight, and applying best practices.

We are fully committed to meeting the requirements of the Fiscal Year (FY) 24 National Defense Authorization Act (NDAA) with respect to Unaccompanied Housing (UH), as well as the recommendations in the September 2023 Government Accountability Office (GAO) report. We look forward to working closely with this Committee and the other committees of jurisdiction to find realistic, executable solutions to fix our vast inventory of UH in need of improvement.

Our commitment is evidenced by our annual investment in permanent party UH, which now exceeds \$1.5 billion per year, and our approximately \$2.1 billion per year investment

in all UH types across all components – Active, Guard and Reserve; both investments are averaged across the Future Years Defense Program (FYDP). Due to our continued investments in the government-owned Army Family Housing inventory (mostly located overseas), the vast majority of those homes will be rated as good or fair by the end of FY 25. Our continued focus on improving Military Housing Privatization Initiative (MHPI) oversight and promoting program sustainability amplifies the importance of providing quality housing and services to the force. We stand ready to work with the committee to implement the new family housing provisions contained in the FY 24 NDAA.

In addition to our focus on housing, we are continuing our plan to modernize the Army's Organic Industrial Base (OIB). We are committed to meaningful investments in our Depots and Arsenals to keep our OIB installations safe and fully operational.

Essential to the effective improvement of our infrastructure is the availability of reliable real property asset management tools that can accurately predict sustainment requirements and identify specific needs so that we are able to take a preventative - rather than a reactive - approach to our sustainment investments. Army, like the other Military Departments, is transitioning to the model known as *Sustainment Management System BUILDER*, which, with more accurate inputs, will provide improved clarity about facilities' conditions. We also continue to rely on Facilities Investment Planning, performed by all three components at the project level, which, in turn, informs Army Headquarters' five-year programming and budgeting processes. The Army is working to tighten controls on the specific projects we program for military construction so that the projects we submit are based on more reliable cost estimates and therefore less likely to experience exponential cost growth. This will improve predictability and reduce the need for time-consuming reprogramming. We believe the results of these efforts will guide our investment decisions with greater precision.

Today, I would like to update you on actions we have taken over the past year to improve our housing portfolio - from both infrastructure and service perspectives.

An Update on the Army's Unaccompanied Housing Portfolio

The Army's UH inventory, the largest across all services, consists of three types of barracks – permanent party (PP), institutional training (IT), and collective training (CT). There are currently 6,789 UH buildings comprising approximately 189,000 PP spaces, 110,000 IT spaces and 182,000 CT spaces. Collectively, current modeling indicates that 77% of these buildings are at or above a Facilities Condition Index of 80 or rated at a good or fair condition, which leaves 23% of the Army's barracks spaces in poor and failing condition. In addition, based on modeling, the Army's UH deficit for junior enlisted PP UH stands at approximately 25,000 spaces. Five installations currently account for nearly half of the PP UH shortfall: Fort Cavazos, Texas; Fort Stewart, Georgia; U.S. Army Garrison Ansbach, Germany; Fort Riley, Kansas; and Presidio of Monterey, California. Even though the Army has invested significantly in UH, the sheer size of the existing inventory, along with the growing backlog of deferred maintenance, insufficient recapitalization funding, the large PP UH deficit, and sub-optimized management practices, have all contributed to the current UH situation. Significant and sustained investment, as well as use of other management tools, are needed to improve the Army's current posture across all UH types.

Improvements to Sustainment Funding

The release of the September 2023 GAO Report on "*Military Barracks – Poor Living Conditions Undermine Quality of Life and Readiness*" confirmed the Army's concern that UH conditions affect quality of life and retention. We continue to explore ways to improve the habitability of our inventory and control degradation. We are committed to prioritizing UH sustainment funding, and funding for Military Construction (MILCON) projects that address both poor and failing inventory, as well as UH space deficits. We plan to use a percentage of future sustainment funding to address individual failing systems, such as heating, ventilation, and air conditioning systems, or failing roofs. This approach will allow the Army to focus Restoration and Modernization (R&M) funding on broader renovations to address poor and failing barracks, as well as those not meeting configuration and privacy standards.

Use of R&M for Military Construction (MILCON) Pilot and other Opportunities

We thank Congress for authorizing in the recent legislation the use of Operations and Maintenance dollars to replace failing UH where repair costs exceed 75% of Plant Replacement Value. It is the Army's intent to administer this new pilot program immediately and as much as possible. We look forward to reporting to all relevant committees of jurisdiction on our progress in using this new authority. We are excited about the prospects this brings to addressing our failing barracks.

As the committee considers other potential reforms or pilots that could assist the Military Departments to expeditiously address UH requirements, we will work with the Department on potential legislative solutions, and we will update the committee when they are ready for congressional submission. We are grateful to Congress for continuing to support the Army on legislative solutions to support soldiers and families.

Barracks Summit

In early December of 2023, the Army held a Barracks Summit at the 3-star/Sergeant Major of the Army/Command Sergeants Major level to address many of the concerns identified in the GAO report and codified in the FY 24 NDAA. Topics discussed included: development of updated design, configuration, and habitability standards; analyses of requirements to improve UH management; opportunities to privatize UH; adjustments to policies such as the UH assignment policy; and a closer examination of the Army's UH resourcing strategy. Summit attendees agreed to form a 3-star Governance Council which will meet quarterly to review and direct progress, while a 1-2- star UH Improvements Group will further develop Council directives. As the Office of the Secretary of Defense (OSD) begins to establish the standards required by the FY 24 NDAA, the Army's timely actions will serve to inform, and perhaps expedite, the establishment of these updated standards and policy guidance, and provide useful templates to follow.

Privatization Pilot

The Army has proposed a UH privatization project that will provide 544 PP junior enlisted spaces to support the Fort Irwin, California housing requirement. A Life Cycle Cost Analysis shows that privatization is the more cost-effective choice for adding barracks at this installation. Based on that analysis, this project would allow the Army to realign projected MILCON dollars for other UH needs. The Army provided a brief to Congressional Oversight Committees as required by the FY 23 NDAA concerning this project. The project is with OSD for review prior to OMB approval. The Army is actively assessing where privatization projects may be used to address UH challenges at other locations.

Understanding Resourcing Requirements

Earlier in 2023, the Army took concrete steps to better understand how to resource PP UH requirements. In June of 2023, my office, along with the Deputy Chief of Staff, G-9 U.S. Army, and the Sergeant Major of the Army conducted an initial assessment of resourcing opportunities within the Army's Facilities Sustainment, R&M and MILCON programs that would have a meaningful impact on Army's PP UH. We determined that increased sustainment funding will optimize our ability to keep good and fair barracks in their current condition, a goal shared by Congress as evidenced in the FY 24 NDAA.

Policy and Process Improvements

The September 2023 GAO Report - Military Barracks: Poor Living Conditions Undermine Quality of Life and Readiness – contained a number of recommendations that are informing the Army's actions to improve living conditions for our single junior enlisted population. For example, GAO recommended that we examine UH manager positions, and then 2024 NDAA followed with specific requirements for UH management. We aim to include in future budgets and program plans sufficient resources to place a civilian UH manager in every Army Housing Office (AHO) per the FY 24 NDAA requirement. We are also assessing, per the GAO recommendation, the number of civilian personnel we need in addition to those required by the NDAA to properly manage our UH.

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 and the resourcing needs. We will continue to work with this Committee and all committees of jurisdiction to develop effective programs and policies to better manage our UH programs.

An Update on the Army's Family Housing Portfolio

Army Family Housing (AFH) and MHPI

The Army has the largest inventory of Family Housing across the Military Departments. The owned AFH inventory consists of approximately 10,000 units, with the majority of the homes located overseas. The Army's privatized housing inventory consists of ~88,500 units, of which family housing constitutes the vast majority. Privatized housing providers are investing \$2-2.5B over the next three years on new builds, renovations, and other development work. These investments will improve the quality of life for Soldiers and families living in Army housing.

NDAAs Requirements and Reforms:

The Army has worked closely with Congress over the last several years to implement a wide-ranging array of legislatively required reforms intended to restore confidence in our privatized housing programs and ensure rigorous project oversight. The FY 24 NDAA requires, among other things: the implementation of recommendations from the April 2023 GAO Report "*Military Housing: DoD Can Further Strengthen Oversight of its Privatized Housing Program.*" The Army supports and will quickly implement all of the FY 24 NDAA requirements as we work with Congress to continue improving the MHPI program.

GAO Report "*Military Housing: DoD Can Further Strengthen Oversight of its Privatized Housing Program*"

Upon release of the GAO housing report in April 2023, the Army developed a Corrective

Action Plan to incorporate the recommendations from the GAO investigation. For example, the Army is updating the “Plain Language Brief” for improved communication to new tenants. This brief is required by law to be provided to residents before they sign a lease with a housing provider and once again following lease signing. The brief outlines the rights and resources available to the resident, clarifies the responsibilities of all parties, and reiterates the Army’s role as a tenant advocate through on-the-ground support from the AHO.

The Army is developing supplemental training/ job aids to assist AHO personnel in guiding dispute resolution procedures. To further strengthen the effectiveness of implementation of the Tenant Bill of Rights (TBoR), the Army has initiated a Housing Program Review to assess: (1) the effectiveness of the dispute resolution program, (2) 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.

One particularly beneficial component of the TBoR is the dispute resolution process, which provides residents an effective means of resolving lease disputes with private housing providers. To date, 54 disputes have been initiated under the dispute resolution provisions and the Army has informally resolved 45 of those disputes. Eight cases were addressed using the formal dispute resolution process and only one case is currently in formal dispute.

Army Privatized Housing Council (APHC)

In 2021, the Army stood up the APHC, which the Assistant Secretary of the Army (Installations, Energy and Environment) co-chairs along with the Commanding General of Army Materiel Command (AMC). The Council convenes the private housing providers and senior Army leaders at least once a year to discuss the state of the portfolio and potential solutions to address challenges. Through this council, we coordinate with Army stakeholders and the housing providers to achieve consensus on key initiatives such as the Advisory Council on Historic Preservation (ACHP) Program Comment for pre-1919

historic homes, electric vehicle charging needs, and infrastructure grid modernization.

One key initiative to come out of our last APHC meeting is the establishment of a standardized Quality Assurance/Quality Control (QA/QC) program to govern maintenance work at privatized housing. This QA/QC protocol, being coordinated by the Military Housing Association, will enhance maintenance oversight by applying uniform QA/QC standards and best practices that can be applied across the projects of the five private Army housing providers who are part of the Military Housing Association. We expect any other housing providers who are not members of the Military Housing Association to meet the same QA/QC standards.

MHPI Reforms

In addition to the TBoR, the Army is implementing many other housing reforms. To ensure we have the right number of skilled professionals to implement these reforms, we conducted manpower studies that will be incorporated into an OSD Report to Congress. We will identify the number of additional personnel needed at each installation, as well as headquarters, to provide the appropriate level of housing oversight for privatized, owned, and leased inventories.

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 five-year recurring cycle; enhanced third-party comprehensive quality assurance program for construction; quarterly performance reviews with the OSD; standardization of project-level Incentive Fee Performance Plans; and revision of new language in underlying legal documents (ground leases) to incorporate statutory requirements and executive orders, and to clarify enforcement provisions, and application of the Davis-Bacon Act. These changes to the project contracts strengthen the Army's ability to hold private housing providers accountable.

MHPI 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. Due to a wide-ranging set of challenges, the projects are not able to fund their reinvestment accounts sufficiently to fully address redevelopment needs. These challenges include: higher than expected operating expenses that are not fully covered by BAH; dramatically increased insurance and utilities rates; inflation; and the high cost of materials and labor.

At the outset of the program, the Army utilized the private sector debt markets to inject 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 35,571 homes and completed significant renovations on another ~31,570 homes. This leaves approximately 19,000 homes, including historic homes that have received limited or no renovation work since the program’s inception.

The Army is analyzing various methods to increase capital investment over the near term while attempting to reduce sustainment costs. However, the long-term financial viability and sustainability of the program must be addressed. We look forward to working with Congress to explore long-term solutions.

Third-Party Investments

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 merits 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, including interest rates, and financial viability of a potential third-party investment against the near-

term needs of the project or portfolio. This next year, the Army is considering allowing MHPI companies to put in place third party investments for several of its MHPI portfolios. Improving markets will optimize the amount of debt that can be captured. We will ensure all applicable congressional oversight committees are fully briefed on these initiatives before they are finalized.

Service Equity Contributions

In the FY 24 President's Budget Request, the Army requested \$50M each for Fort Eisenhower, Georgia and Fort Leonard Wood, Missouri to support housing improvements. The mission change to bring the U.S. Army Cyber Command to Fort Eisenhower has increased demand for housing. At Fort Leonard Wood, low or no increases to BAH rates across a decade resulted in a depleted reinvestment account at an installation with a multitude of legacy homes. The Committee can expect to see additional requests in future budget submissions for equity contributions where they are absolutely needed and defensible.

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 recently finalized a land sale at Fort Bliss, Texas, that produced \$33M in proceeds that will be used to recapitalize a portion of the Fort Leonard Wood housing inventory, which is operated by the same housing provider. The Army will continue to look for land sale opportunities to generate resources for its privatized housing portfolio.

Rising Costs

Over the past five years, costs to construct new houses have continued to increase. Contributing factors included inflation, supply chain and labor market shortages, and overall macro-economic conditions. The availability of adequate and affordable housing

around our Army installations have been negatively affected by these contributing factors. The decreased off-post inventory has had a direct impact on the Department's overall basic allowance for housing program, which utilizes market data to set rates. An additional factor that drives up the cost of privatized housing is compliance with federal laws that are not applicable in the associated private market.

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:

Small Installations Privatization Initiative (SIPI) - In early August of 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 Cadence Communities, LLC, which leverages revenue from 371 existing family housing assets at six small geographically dispersed Army installations to fund the construction of 75 family homes and 60 UH apartments adjacent to USSOUTHCOM Headquarters. This is the first Army MHPI project in thirteen years and will provide necessary housing at USAG Miami for Service members and their families assigned to this high-cost area. On-site construction has begun, and we encourage Congressional Delegation visits to the site.

Investments in Energy Resilience - The Army is collaborating with industry to achieve near-term goals for reducing installations' energy consumption 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 67.5 MW of electric generation on multiple Army installations. Corvias has installed solar panel systems at Fort Riley, Kansas, which

has resulted in a 30% reduction in the electricity typically consumed. The Army recently approved another 4.53 MW solar array at Fort Riley which should be operational in about six months. Once completed, these projects will result in a 47% reduction of annual electricity consumed in Fort Riley housing.

All private 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. To address the ever-growing presence of electric vehicles on our installations, we will soon issue an electric vehicle policy to proactively set the conditions for the seamless integration of future vehicle technology into our portfolio infrastructure. Electric Vehicle Level 2 charging is incorporated into plans for all new homes and major renovations.

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 Comment agreements reached with the ACHP to achieve compliance with the National Historic Preservation Act (NHPA). 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.

Work with the historic preservation community and the ACHP is ongoing to address pre-1919 historic housing to achieve similar results. However, even if we were to implement a Program Comment for pre-1919 homes, historic housing will still pose a significant challenge to our ability to maintain our portfolio. We are constantly exploring ways to better address this issue and we look forward to working with the Committee to find solutions.

As an example, since 2016 the Army has been conducting NHPA Section 106 consultation with the New York State Historic Preservation Office, the National Park

Service, and the ACHP for the divestiture/demolition of pre-1919 Army Family Housing no longer needed at Watervliet Arsenal (WVA), the oldest, continuously active arsenal in the United States. The Army is continuing to consult with stakeholders to find an appropriate path forward that supports and balances Army mission needs with historic preservation requirements. The Army plans to apply lessons learned from the WVA consultation to future NHPA consultations. The WVA consultation also highlights the Army's need for programmatic solutions to its historic housing challenges.

Conclusion

In closing, the Department of the Army and its senior leaders are committed to continuing the decisive actions we are taking to improve all types of Army housing. The work is difficult and complex, and we must work together, across Military Departments, with the OSD, and with Congress, to optimize outcomes. We appreciate your continued interest, involvement, and oversight 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 subcommittee as we seek to significantly improve the housing for our Soldiers and families.