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## MILITARY HOUSING

# Preliminary Recommendations to Strengthen DOD's Oversight and Monitoring of Privatized Housing

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Capabilities and Management

DRAFT

# GAO Highlights

Highlights of [GAO-20-471T](#), a testimony before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

Congress enacted the Military Housing Privatization Initiative in 1996 to improve the quality of housing for servicemembers. DOD is responsible for general oversight of privatized housing projects. Private-sector developers are responsible for the ownership, construction, renovation, maintenance, and repair of about 99 percent of military housing in the United States. Recent reports of hazards, such as mold and pest infestation, have raised questions about DOD's oversight.

This statement summarizes GAO's draft report on privatized housing, which is currently at DOD for review and comment. Specifically, the statement discusses, among other objectives, OSD and the military departments' (1) oversight of privatized military housing and (2) development and implementation of initiatives to improve privatized housing.

For its draft report, GAO reviewed policies and guidance; visited a non-generalizable sample of 10 installations representing each military department, among other factors; analyzed work order data; and interviewed DOD officials and private partner representatives.

## What GAO Recommends

GAO's draft report includes several recommendations, including that DOD take steps to improve housing condition oversight, performance metrics, maintenance data, and resident satisfaction reporting as well as to assess the risk of initiatives on project finances.

View [GAO-20-471T](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or [fielde1@gao.gov](mailto:fielde1@gao.gov).

March 3, 2020

## MILITARY HOUSING

### Preliminary Recommendations to Strengthen DOD's Oversight and Monitoring of Privatized Housing

#### What GAO Found

The Office of the Secretary of Defense (OSD) and the military departments conduct a range of oversight activities, but some of these activities have been more extensive than others. Specifically, GAO's draft report notes:

- **The military departments conduct some oversight of the physical condition of housing, but some efforts have been limited in scope.** Military departments have authority to conduct oversight of the condition of privatized housing; that oversight generally consists of reviewing a sample of work order requests, visual inspections of housing during change of occupancy, and other point in time assessments. However, GAO found that these efforts are limited in scope. For example, annual interior walk-throughs are limited to just a few homes at some installations, which may not comprehensively reflect the condition of the housing units at those installations.
- **Military departments use performance metrics to monitor private partners, but metrics do not provide meaningful information on the condition of housing.** OSD has recently issued guidance to ensure consistency in the framework used to measure project performance. However, the specific indicators used to determine if the metrics are being met do not accurately reflect private partner performance related to the condition of the home. For example, a common indicator is how quickly the private partner responded to a work order, not whether the issue was actually addressed.
- **The military departments and private partners collect maintenance data on homes, but these data are not captured reliably or consistently.** The Department of Defense (DOD) is expanding its use of work order data to monitor and track the condition of privatized housing. However, based on GAO's analysis of data provided by all 14 private partners, these data cannot reliably be used for ongoing monitoring of privatized housing because of data anomalies and inconsistent business practices in how these data are collected.
- **DOD provides reports to Congress on the status of privatized housing, but some data in these reports are unreliable, leading to misleading results.** DOD provides periodic reports to Congress on the status of privatized housing, but reported results on resident satisfaction are unreliable due to variances in the data provided to OSD by the military departments and in how OSD has calculated and reported these data.

OSD and the military departments have made progress in developing and implementing a series of initiatives aimed at improving privatized housing. In addition, Congress established several requirements addressing privatization housing reform. However, DOD officials and private partner representatives have identified challenges that could affect implementation of these various initiatives. These include concerns that implementation could have unintended negative impacts on the financial viability of the privatized housing projects.

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Chairwoman Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss issues related to the condition of privatized military housing. In 1996, Congress enacted the Military Housing Privatization Initiative (MHPI) in response to Department of Defense (DOD) concerns about the effect of inadequate and poor quality housing on servicemembers and their families.<sup>1</sup> Since then, private-sector developers and property management companies, hereafter referred to as private partners, have assumed primary responsibility for military family housing in the United States. They are currently responsible for the construction, renovation, maintenance, and repair of about 99 percent of domestic military family housing in the continental United States, Alaska, and Hawaii. Over the last few years, reports of the presence of lead-based paint and other hazards, such as mold and pest and rodent infestations, have raised questions about DOD's management and oversight of privatized housing.

My testimony today summarizes our draft report, which we provided to DOD last month for review and comment. The draft report discusses the extent to which the Office of the Secretary of Defense (OSD) and the military departments (1) conduct oversight of privatized military housing for servicemembers and their families, (2) communicate their roles and responsibilities to servicemembers and their families, and (3) have developed and implemented initiatives to improve privatized housing.

For our draft report, we reviewed DOD policies and guidance related to the administration of the MHPI program; analyzed available private partner data on work orders from October 2016 through April 2019 from each of the 79 MHPI family housing projects;<sup>2</sup> visited a non-generalizable sample of 10 installations selected to represent each of the military departments, six private partners—including the five largest who own the majority of privatized military housing—and geographic and climate diversity; and conducted 15 focus groups at the 10 installations we

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2802 (1996), codified as amended at 10 U.S.C. §§ 2871-2885.

<sup>2</sup>We discuss issues regarding the reliability of these data later in the statement.

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visited.<sup>3</sup> We also reviewed a non-generalizable sample of ground leases and other MHPI project documents, including leases and project documents for the installations we visited, as well as a sample of leases from other locations not included in our site visits. We reviewed the implementation and results of various resident satisfaction surveys conducted by the military departments and private partners. To understand roles and responsibilities and the management of privatized housing, we interviewed OSD and military department officials, as well as representatives from each of the 14 private partners.

The work upon which our draft report is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

DOD's policy is to ensure that eligible personnel and their families have access to affordable, quality housing facilities and services consistent with grade and dependent status, and that the housing generally reflects contemporary community living standards.<sup>4</sup> From the inception of MHPI, the military departments were provided with various authorities to obtain private-sector financing and management to repair, renovate, construct, and operate military housing in the United States and its territories. Through these authorities, the military departments have entered into a series of agreements with private partners to provide housing to servicemembers and their families.

The military departments have flexibility in how they structure their privatized housing projects, but typically the military departments lease land to private developers for 50-year terms and convey existing housing

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<sup>3</sup>The 10 installations in our non-generalizable sample included three Army installations—Fort Bragg, North Carolina; Fort Huachuca, Arizona; and Fort Sill, Oklahoma; two Navy installations—Naval Station Norfolk, Virginia and Naval Base San Diego, California; two Marine Corps installations—Marine Corps Base Camp Lejeune, North Carolina and Marine Corps Base Camp Pendleton, California; and three Air Force installations—Davis-Monthan Air Force Base, Arizona; Langley Air Force Base, Virginia; and Tinker Air Force Base, Oklahoma.

<sup>4</sup>Department of Defense (DOD) Instruction 4165.63, DOD Housing (July 21, 2008) (incorporating Change 2, Aug. 31, 2018).

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located on the leased land to the developer for the duration of the lease. The developer then becomes responsible for renovating and constructing new housing and for the daily management of these housing units. At the end of fiscal year 2017, 14 private partners were responsible for 79 privatized military family housing projects—34 for the Army, 32 for the Air Force, and 13 for the Navy and the Marine Corps—in the United States, each of which includes housing at one or more military installation.<sup>5</sup>

Each privatized housing project is a separate and distinct entity governed by a series of legal agreements that are specific to that project.<sup>6</sup> However, there are some common elements in how projects invest and use funds. Every project takes in revenue, which consists mostly of rent payments.<sup>7</sup> Projects then pay for operating expenses, including administrative costs, day-to-day maintenance, and utilities, among other things. After that, projects generally allocate funds for taxes and insurance, followed by debt payments. In the typical funding structure for a privatized housing project, once debt payments are made, funds are allocated to accounts that fund scheduled maintenance, such as repair and replacement of items like roofs, heating and cooling systems, and infrastructure. After that, funds are then allocated to a series of management incentive fees, such as the property management fee. Finally, the project divides these remaining funds according to a fixed percentage between accounts that (1) fund major renovations and rebuilds and (2) are provided to the developer.

The Deputy Assistant Secretary of Defense for Facilities Management, under the authority, direction, and control of the Assistant Secretary of Defense for Sustainment, is responsible for all matters related to MHPI and is the program manager for all DOD housing, whether DOD-owned,

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<sup>5</sup>As of November 2019, these projects were owned by the same 14 private partners. For the purpose of this statement, we focused on privatized family housing projects and not housing for unaccompanied military personnel.

<sup>6</sup>These agreements include, among other things, an operating agreement, a property management agreement, and an agreement that describes the management of funds in the projects, including the order in which funds are allocated within the project

<sup>7</sup>DOD's Office of the Deputy Assistant Secretary of Defense for Military Personnel Policy annually calculates rent and utility rates for locations across the United States based on estimates of local market conditions, which are then adjusted for an individual's pay grade and dependency status. These calculations, which can fluctuate from year to year, are then used to determine individual servicemembers' monthly basic allowance for housing payments. Servicemembers' rent is paid—whether living on the installation or off—with basic allowance for housing payments.

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DOD-leased, or privatized.<sup>8</sup> In this capacity, the Deputy Assistant Secretary is to provide both guidance and general procedures related to military housing privatization, as well as required annual reports to Congress on the status of privatized military housing projects.<sup>9</sup> However, it is the responsibility of the military departments to execute and manage privatized housing projects, including conducting financial management and monitoring their portfolio of projects. Each military department has issued guidance that outlines its responsibilities for privatized housing, such as which offices are responsible for overseeing privatized housing projects.<sup>10</sup>

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## DOD Conducts Some Oversight of the Condition of Privatized Housing, but Efforts Are Limited in Key Areas

In our draft report, currently with DOD for review and comment, we found that each military department conducts a range of oversight activities—some more extensive than others—for its privatized housing projects. For example, among other things, military departments review sample work order requests and inspect housing during the change-of-occupancy process. DOD guidance states, that because privatization creates a long-term governmental interest in privatized housing, it is essential that projects be attentively monitored.<sup>11</sup> Through its guidance, DOD delegates oversight responsibility of the individual privatized housing projects to each of the military departments. In our draft report, we noted that OSD and the military departments' oversight efforts have been limited in the following key areas. Specifically, we found that (1) the scope of oversight of the physical condition of privatized housing has been limited; (2) performance metrics focused on quality of maintenance and resident

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<sup>8</sup>Almost all DOD family housing in the United States has been privatized; however, DOD is still responsible for overseas family housing and most housing for unaccompanied military personnel in the United States.

<sup>9</sup>Section 2884(c) of Title 10 of the United States Code requires the Secretary of Defense to report semiannually an evaluation of the status of oversight and accountability measures for military housing privatization projects, including, among other things, information about financial health and performance and the backlog of maintenance and repair. According to DOD officials, although the statute requires semiannual reporting, due to the effort involved DOD aims to produce one report each fiscal year, rather than two.

<sup>10</sup>Air Force Instruction 32-6007, *Privatized Housing Management* (Sept. 19, 2012) (incorporating by AFGM 2019-01, July 25, 2019); Department of the Army, *Portfolio and Asset Management Handbook* (Version 5.0) (Sept. 11, 2014); Commander, Navy Installations Command, Instruction 11103.7A, *Navy Housing Roles and Responsibilities for Program Management and Finance* (Jan. 16, 2014); and Marine Corps Order 11000.22, *Marine Corps Bachelor and Family Housing Management* (July 14, 2014) (incorporating Change 1, Jan. 22, 2018).

<sup>11</sup>DOD Manual 4165.63, *DOD Housing Management* (Oct. 28, 2010) (incorporating Change 2, Aug. 31, 2018).

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satisfaction do not accurately reflect private partner performance related to the condition of privatized housing; (3) there is a lack of reliable or consistent data on the condition of privatized housing; and (4) past DOD reports to Congress on resident satisfaction are unreliable due to the inconsistent handling and calculation of the data and therefore may be misleading.

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### Military Departments Conduct Some Oversight of the Physical Condition of Privatized Housing, but the Scope of Efforts Is Limited

DOD delegates oversight responsibilities of the individual privatized housing projects to each of the military departments, and each military department has subsequently issued guidance outlining oversight roles and responsibilities. Military department oversight activities generally fall into two categories—(1) daily oversight of management and operations and (2) periodic reviews of compliance with each project’s business agreements.

**Daily oversight of management and operations.** Daily oversight of a project’s management and operations is to be conducted by each installation’s military housing office. Military housing officials told us that activities to monitor the physical condition of housing units generally include reviewing sample work order requests, following up with a sample of residents to check on their experience with recently completed work, and inspecting housing units during the change-of-occupancy process. As we noted in our draft report, the implementation and scope of these activities varies and can be limited. For example, during our site visits conducted from June through August 2019, we observed that the rate of inspections of homes following change-of-occupancy maintenance varied at the installations we visited. Military housing office officials at one Air Force installation told us that they inspect 100-percent of homes that have completed change-of-occupancy maintenance, while officials from a different Air Force installation stated they inspect 10 to 20 percent of these homes.

Military department officials told us that in spring 2019, each department conducted a “100-percent” review of privatized housing by directing installation commanders to contact all residents of privatized housing and offering a visual inspection of their privatized housing unit. In addition, in March 2019 the Army issued an order directing military housing office officials to inspect 100-percent of homes where change-of-occupancy maintenance has been completed. Officials from Army installations we visited noted that this was an increase from previous practices, and for one installation was a change in practice from only conducting inspections during the move-out process, which occurs prior to change-

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of-occupancy maintenance. Similarly, in November 2019, Air Force officials told us they were moving to a 100 percent inspection policy.

**Periodic reviews of compliance with each project’s business agreements.** Periodic reviews of compliance with a project’s business agreements are a joint effort between the local military housing office, the private partners, military department installation commands, and other echelons of command.<sup>12</sup> These reviews can include neighborhood tours to view project amenities such as community centers, playgrounds, and pools, all of which are owned, maintained, and operated by the private partner companies, as well as exteriors of housing units. However, our draft report showed these annual reviews have been narrow in the scope of their assessment of the physical condition of the housing units, as interior walk-throughs were, at times, focused on just a few homes at each installation.

According to military department officials, each department has completed initiatives and is undertaking initiatives to revise guidance and standardize daily oversight activities in an effort to provide consistent oversight across projects and installations, and to increase the focus on the physical condition of housing. In addition, the military departments have initiatives to increase staffing levels, improve training for military housing office officials, and ensure that military department housing officials have independent access to work order data, to strengthen their oversight activities. However, each military department is working to implement service-specific initiatives with only limited guidance from OSD on the level of oversight expected of the services as it relates to the condition of the housing. Specifically, OSD guidance is focused on the oversight of the implementation of projects, the construction of new housing units, and project financial monitoring. The guidance stipulates that after privatized housing projects are awarded, monitoring should include descriptions of deal structure and strategies for project monitoring. In contrast, OSD guidance for military-owned housing provides clearly defined objectives to the military departments for oversight, including the physical condition of the homes. Unless OSD updates its guidance on the oversight of privatized housing with

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<sup>12</sup>In addition to installation-level chain of command, other echelon commands from each service involved in privatized housing projects include: the Air Force Civil Engineer Center; the Air Force Materiel Command; the Department of Army; the Army Materiel Command; the Army Installation Management Command; the U.S. Army Corps of Engineers; the Commander; Navy Installation Command; the Naval Facilities Engineering Command; and the Marine Corps Installations Command.



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objectives for overseeing the physical condition of housing units, it cannot be assured that the military departments' oversight activities will be sustained over time or be sufficiently consistent across projects, raising the risk that private partners may not provide adequate quality housing.

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### DOD Uses Several Metrics to Monitor Private Partner Performance, but the Indicators Underlying Those Metrics Do Not Provide Meaningful Information on the Condition of Privatized Housing

The military departments each use a range of project-specific performance metrics to monitor private partner performance, but as we note in our draft report, the metrics designed to focus on resident satisfaction and on the quality of the maintenance conducted on housing units do not provide meaningful information or reflect the actual condition of the housing units. Most, but not all, of the private partners are eligible to receive performance incentive fees based on generally meeting the performance metrics established in each individual project's business agreement.<sup>13</sup> Private partner performance is commonly measured through four key metrics—resident satisfaction, maintenance management, project safety, and financial management. To determine how well the private partners are performing under the metrics, military housing office officials told us they rely on a range of specific indicators established in the project business agreements. However, the indicators themselves do not provide meaningful information on the private partner's performance in maintaining quality housing units. For example, we identified the following in our draft report:

- **Maintenance management.** One indicator of performance of maintenance management that is regularly included in project business agreements measures how often the property manager's response time to work orders meets required timeframes established in the project's business agreements.<sup>14</sup> While this indicator measures the timeliness of the private partner's response, it does not measure

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<sup>13</sup>We determined that, as of the end of fiscal year 2017, 5 of the 79 privatized housing projects did not have an established incentive fee plan. These fees are intended to incentivize private partner performance. The incentive fees can be paid to private partners on an annual or quarterly basis and can be withheld in part or in total if the private partner fails to meet the metric. The weight each performance metric and underlying indicator carries toward the incentive fee varies by project, so incentive fees for some projects may be heavily dependent on financial performance, while others may be more heavily weighted toward resident satisfaction.

<sup>14</sup>Work orders may be categorized as emergency, urgent, or routine and have pre-established required timeframes that the private partners response is evaluated against based on a specified amount of time as outlined in the project's business agreement. For example, the performance incentive fee plan for the project at Camp Lejeune, North Carolina, stipulates that the private partner is required to respond to work orders classified as emergency within ½ hour during normal working hours and within 1 hour after business hours, to urgent work orders within 4 hours, and to routine work orders within 3 days.

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or take into account the quality of the work that was conducted or whether the resident's issue was fully addressed. As such, a property manager may fully meet the metric for maintenance management even if a given repair has not been adequately completed. Residents in 13 of our 15 focus groups noted that they typically have had to submit multiple work order requests before an individual maintenance issue has been fully addressed. Some projects include indicators that aim to more directly measure quality, such as the number of work orders placed during the first 5 business days of residency, which may indicate the extent to which all of the change-of-occupancy maintenance was completed.

- **Resident satisfaction.** One example of an indicator of resident satisfaction is whether a project has met target occupancy rates established in the project's business agreements. An OSD official and private partner representatives told us they use occupancy as an indicator of satisfaction based on the assumption that residents would move if they were dissatisfied with their home's condition. However, based on our focus groups, this may not be a reliable assumption. Although most residents are not required to live in military housing, residents in each of our 15 focus groups indicated a variety of reasons for choosing to live in privatized housing, many of which did not have to do with their satisfaction with the quality or condition of their homes. For example, residents in our focus groups cited other factors influencing their decision to live in privatized housing, such as living in close proximity to military medical or educational services for children or other family members that are part of the military's Exceptional Family Member Program, a lack of safe and affordable housing in the surrounding community, and access to quality schools.<sup>15</sup>

OSD and military department officials have recognized that the current indicators for measuring performance do not consistently focus on or prioritize the private partners' performance with maintaining housing units and ensuring resident satisfaction. For example, Army officials told us they are no longer using occupancy rates as an indicator of resident satisfaction and have taken steps to standardize performance indicators across all Army projects, while still allowing for flexibility at the installation

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<sup>15</sup>The Exceptional Family Member Program provides servicemembers and their dependents with special medical and educational needs. In each of our 15 focus groups we asked residents to tell us "What were the factors that led you to make the decision to live in privatized housing vs. a rental home in the community?" In 4 out of our 15 focus groups, residents indicated that accessibility to services for an Exceptional Family Member Program family member played a role in their decision to live in privatized housing versus a rental home in the community.

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level to modify the weight of indicators to provide incentives reflective of the specific needs of the installation. Limitations to the current indicators may hinder the military departments' ability to accurately determine private partner performance. However, OSD and military department officials told us they have not yet reevaluated the specific indicators used to determine whether a private partner has met a specific metric because doing so will require negotiation with each of the private partners for each project. Nonetheless, without reviewing the specific indicators used to award performance incentives, OSD and the military departments do not have assurance that the information the military departments are using to award these incentives reflects the actual condition of the housing.

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### DOD and Private Partners Collect Maintenance Data on Privatized Housing, but These Data Are Not Captured Reliably or Consistently for Use in Ongoing Monitoring of Housing Units

The housing projects' business agreements typically include a requirement for the private partner to maintain a records management system to record, among other things, maintenance work requested and conducted on each housing unit. According to private partner officials, each company uses commercial property management software platforms for activities such as initiating maintenance work orders and dispatching maintenance technicians.<sup>16</sup> Some private partner representatives stated that while data from the work order tracking systems are primarily used to prioritize and triage maintenance work, the data were never intended to monitor the overall condition of privatized housing units. While data from these work order tracking systems may be useful for point-in-time assessments of work order volume at a given installation, military department officials told us that efforts are underway to monitor work order data to increase the military departments' oversight and the accountability of the private partners for providing quality housing.<sup>17</sup> However, as we noted in our draft report, we found that these data are not captured reliably or consistently for use in the ongoing monitoring of the condition of privatized housing units.

We received and reviewed data from each of the 14 private partners' work order tracking systems covering each of the 79 privatized family

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<sup>16</sup>As of February 2019, according to private partner representatives, they primarily used commercial property management software platforms from two companies. For the purposes of this statement, we will refer to these software platforms as "work order tracking systems" and data from these systems as "work orders." Data in these work order tracking systems include information such as records of resident requests for service, history of work conducted on specific housing units, change-of-occupancy maintenance performed, and work completed on common areas.

<sup>17</sup>Work orders may include an associated priority level, such as "emergency," "urgent," or "routine;" a status, such as "open," "completed," "in-progress," or "cancelled;" and a category, such as "electrical" or "plumbing."

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housing projects. Based on our review of these data and discussions with private partner representatives for our draft report, we found two primary factors that would limit the reliability or consistency of using these data for ongoing monitoring of the condition of privatized housing units over time—(1) inconsistent use of terminology in work order records and (2) differing practices for opening and closing work orders:

- **Inconsistent use of terminology.** Based on our review of the data provided by the private partners and discussions with private partner officials, we noted cases where work orders were inconsistently entered into the work order tracking systems with respect to two primary factors—(1) how the request is described by the resident or interpreted by the official entering the data, which can differ for each work order, and (2) the existing range of pre-established service category options in the private partner’s work order tracking system, which differ among the partners.<sup>18</sup>
- **Differing practices for opening and closing work orders.** At some installations we visited, private partners noted changes in practices for opening and closing work orders, limiting the usefulness of the data in monitoring the status of work orders over time and thus the condition of privatized housing.

In addition, we identified other anomalies in work order data from each of the 14 partners. For example, we identified instances of, among other things, duplicate work orders, work orders with completion dates prior to the dates that a resident had submitted the work order, and work orders still listed as in-progress for more than 18 months.

According to military department officials, efforts to review data from the private partners’ work order tracking systems have increased, and military department officials told us they have found similar limitations. However, neither OSD nor the military departments have identified minimum data requirements, established consistent terminology or practices for data collection, or developed processes for the military departments to validate the work order data collected by the private partners. Without direction from OSD to establish minimum data requirements and consistent terminology or practices for data collection, as well as a requirement for the military departments to validate data, the military departments’ ability

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<sup>18</sup>According to private partner officials, the individual responsible for entering the work order into the system—property management office staff, maintenance technicians, call center representatives, or residents—make a judgment on how to categorize the work order.

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to use data from the private partners' work order tracking systems to monitor the condition of privatized homes over time will remain limited and may vary across projects.

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### DOD Provides Reports to Congress on Resident Satisfaction with Privatized Housing, but Data in These Reports Are Unreliable, Leading to Misleading Results

DOD is statutorily required to provide reports to Congress that include, among other things, information about military housing privatization projects' financial health and performance and backlog, if any, of maintenance and repairs.<sup>19</sup> These reports have included information on resident satisfaction with privatized housing based on the results of the annual military department satisfaction surveys.

As we state in our draft report, we determined that information on resident satisfaction in these reports to Congress on privatized housing have been unreliable and are misleading due to (1) variances in the data the military departments collect and provide to OSD and (2) OSD's calculation and presentation of the data. In May 2019, OSD issued its report for fiscal year 2017, which stated that overall resident satisfaction for calendar year 2017 was 87 percent.<sup>20</sup> For OSD's fiscal year 2017 report, the military departments provided data on resident satisfaction based on information from the annual resident satisfaction surveys. Specifically, OSD's instructions to the military departments required the military departments to report satisfaction based on resident responses to the question that asks: "Would you recommend privatized housing," with results indicating how many tenants responded "yes," "no," or "don't know."

However, the military departments' approaches for collecting data in their annual resident satisfaction surveys vary, which limits their ability to assess whether residents would recommend privatized housing. Instead of asking whether residents would recommend privatized housing, the military departments' annual resident satisfaction survey asks residents the following: "How much do you agree or disagree with the following statement, 'I would recommend this community to others.'" A resident's satisfaction with his or her community and inclination to recommend it to

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<sup>19</sup>See 10 U.S.C. § 2884(c).

<sup>20</sup>U.S. Department of Defense, Office of the Assistant Secretary of Defense for Sustainment, *Military Housing Privatization Initiative Program Evaluation Report Reporting Period: October 1, 2016–September 30, 2017* (May 2019). While the reporting period for this report was fiscal year 2017, with respect to reporting data on resident satisfaction, DOD reported information for calendar year 2017.

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others may not be reflective of satisfaction with either the privatized housing unit or privatized housing in general.<sup>21</sup>

Residents are then provided the following response categories on a scale of five to zero: (5) strongly agree, (4) agree, (3) neither agree nor disagree, (2) disagree, (1) strongly disagree, and (0) not applicable, no opinion, don't know, or no answer. Through our analysis, we have identified variances in the methods that each of the military departments use to translate the residents' responses into the "yes," "no," or "don't know" categories. The variances in how the military departments calculate "yes," "no," or "don't know" resulted in inconsistencies in how resident satisfaction is ultimately reported to Congress. For example, for the fiscal year 2017 report, Navy and Army officials told us they counted responses reported in category 3 (neither agree nor disagree) as "don't know." For the same time period, however, Air Force officials told us they counted responses in category 3 (neither agree nor disagree) as "yes." If the Air Force had not counted category 3 as "yes," reported resident satisfaction rates would have been lower. For example, for one Air Force installation, if officials had not counted responses in category 3 as "yes," the resident satisfaction rate for newly constructed units would have been more than 20 percent lower than what was reported.

In our draft report, we also identified instances of errors and inaccuracies in how OSD calculates these data and reports on resident satisfaction to Congress. Specifically, we found missing data points and incorrect formulas, among other errors, in OSD's calculation of the data submitted by the military departments for OSD's fiscal year 2017 report to Congress. For example:

- The formula used by OSD to calculate overall resident satisfaction for the fiscal year 2017 report did not include data for several projects, including for four Army projects that, as of September 30, 2017, accounted for over 18 percent of the Army's total housing inventory.
- For one Air Force project, OSD reported identical resident satisfaction data for the fiscal year 2015, 2016, and 2017 reports, despite the fact

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<sup>21</sup>A resident might recommend his or her community to others for factors other than the condition of his or her privatized housing unit such as proximity to base services, commute time, access to DOD schools, neighborhood amenities, childcare, safety, community support, affordability, and services provided by DOD's Exceptional Family Member Program. In 2019, according to the company that developed the annual satisfaction survey, the military departments' annual satisfaction survey added a question that asks residents how they would rate the satisfaction with the condition of their homes.

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that Air Force officials had noted in their submissions to OSD that the resident satisfaction data were from the annual resident satisfaction survey conducted in December 2013.

In our draft report, we also found that presentation of data in OSD's report to Congress may be misleading because OSD did not explain the methodology it used to calculate the overall resident satisfaction percentage or include caveats to explain limitations to the data presented. Specifically, OSD did not include information on overall response rates to the annual satisfaction survey for each military department, nor did it include response rates by project. Low response rates can create the potential for bias in survey results. For example, in the report for fiscal year 2017, OSD reported that 25 percent of residents living in renovated housing units for one privatized housing project were satisfied with their housing, but we found that only four residents had provided responses to this question. Thus, only one resident reported being satisfied. In addition, we found that OSD did not provide an explanation in the report for why five projects were listed as "not applicable." According to OSD officials, this error was a quality control issue that they plan to address.

According to OSD officials, there are no plans for quality control in development at this time. The National Defense Authorization Act for Fiscal Year 2020 (fiscal year 2020 NDAA) includes a provision requiring each military installation to use the same satisfaction survey for tenants of military housing—including privatized military housing—the results of which are not to be shared with private partners until reviewed by DOD.<sup>22</sup> Until OSD makes changes to the data collection and calculation efforts that make up the department's report to Congress and provides explanations of the data in the reports, OSD will not be able to provide Congress with an accurate picture of resident satisfaction with privatized housing.

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<sup>22</sup>Pub. L. No. 116-92, § 3058 (2019).

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## Military Housing Offices Have Not Effectively Communicated Their Role as a Resource for Servicemembers Experiencing Challenges with Privatized Housing

Military housing office officials, located at each installation, are available to provide resources to servicemembers experiencing challenges with their privatized housing, among other services. However, as we stated in our draft report, we found that these offices have not always clearly and systematically communicated this role to residents of privatized housing. The military housing office is to provide new residents with information on their local housing options, to include referral services for housing options. According to some military housing office officials, the military housing office then works with the private partner to identify the eligibility and type of home the servicemember qualifies for, if the resident chooses to live in privatized housing. According to some residents we spoke with in one of our focus groups, beyond this initial interaction, military housing office officials generally do not interact with residents on a regular basis. Additionally, residents who participated in our focus groups noted they were sometimes confused about the military housing offices' roles and responsibilities with regard to the maintenance of their home; there was a perception that the military housing office was not working independently of the partner in the residents' best interest; or they did not know the military housing office existed.

The military department oversight agencies have also found that the military departments have not clearly and systematically communicated their roles to residents, and resident confusion and a lack of awareness regarding the role of the military housing offices is an issue. In April 2019 the Air Force Inspector General reported that less than half of the residents interviewed used their military housing office to resolve complaints, and at some installations officials visited, many residents did not know the military housing office had an oversight role.<sup>23</sup> Similarly, in May 2019, the Army Inspector General reported to the Secretary of the Army that at 82 percent of Army installations with privatized housing, residents did not know how to escalate issues to either the private partner or the Army housing office.<sup>24</sup> Additionally, the Army Inspector General reported that installation command teams and staff cited multiple circumstances where military housing offices and tenant advocacy roles and responsibilities were unclear. Further, some military housing office officials with whom we spoke during our site visits acknowledged the gap

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<sup>23</sup>U.S Air Force, Office of Inspector General, *Directed Inspection Report: Military Privatized Housing Health and Safety Complaint Resolution*, (Apr. 9, 2019)(U//FOUO).

<sup>24</sup>Department of the Army Inspector General, Department of the Army Inspector General Special Interest Item, *Assessment of the Residential Communities Initiatives (RCI)*(May 15, 2019). The 82 percent is based on 1,180 surveys collected by the Department of the Army Inspector General. Surveys were provided to 1,493 residents at 49 Army locations.



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in resident awareness regarding the existence and purpose of the military housing office. Some military housing officials also noted that some residents are unaware of the difference between the military housing office and the private partner office, due in part to their physical co-location and unclear building signage.

Each military department has issued information that establishes that its housing offices can assist in the resident dispute resolution process. Specifically, if servicemembers are experiencing a dispute with a private partner, military department guidance establishes varying roles for their respective military housing office officials. For example, Army policy states that each installation should have an official tasked with supporting servicemembers regarding resident issues that cannot be resolved by the private property manager. This individual is also responsible for resolving every resident complaint and the military housing office, if required, can request mediation by the garrison commander.

OSD has recognized that the military departments' communication with residents about their role as a resource for them has been limited. In February 2019, the Assistant Secretary of Defense for Sustainment testified before Congress that a way forward in addressing resident concerns would require focus in three key areas: communication, engagement, and responsiveness. Some military housing office officials told us they have taken steps to increase resident awareness, such as increasing the advertising of the military housing office's role and contact information, conducting town hall meetings, and rebranding their military housing offices to differentiate them from the private partners. For example, a Marine Corps housing office official stated that the housing office established a document, which is distributed to residents by the private partner, informing residents of housing office contact information and the service's three-step dispute resolution process, but efforts have not been standardized across all projects. Moving forward, having plans in place to clearly and systematically communicate the difference between the military housing office and the private partners—including the military departments' roles, responsibilities, and military housing office locations and contact information—will better position the military departments to achieve the intended objectives of their initiatives aimed at improving residents' experience.

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## DOD and Private Partners Are Implementing Initiatives to Improve Privatized Housing, but May Face Challenges

OSD, the military departments, and the private partners have identified and begun collaborating on a series of initiatives aimed at improving residents' experiences with privatized housing, but as we state in our draft report currently with DOD for review and comment, these efforts face challenges. In addition, in the fiscal year 2020 NDAA, Congress established several requirements regarding privatized military housing reform.<sup>25</sup> Several of the statutory requirements provide specific provisions that DOD will need to incorporate into its development and implementation of existing MHPI initiatives, as well as additional requirements aimed at improving oversight of privatized housing.

In our draft report, we discuss several of these key initiatives, including the following.<sup>26</sup>

- **Development of a resident bill of rights.** DOD has been working to develop a resident bill of rights intended to provide clarity to residents on their rights and responsibilities while living in privatized military housing. The fiscal year 2020 NDAA includes specific requirements to be included in the bill of rights, for example, ensuring residents have the right to have their basic allowance housing payments segregated and held in escrow, with approval of a designated commander, and not used by the property owner, property manager, or landlord pending completion of the dispute resolution process.<sup>27</sup> In January 2020, DOD officials told us that they were in the process of updating their existing resident bill of rights to include these provisions. In February 2020, the Secretary of Defense signed the resident bill of rights, noting that the rights would be available to residents on May 1, 2020.
- **Implementation of a common (enterprise) dispute adjudication process that will apply to all projects.** The military departments and private partners have been working to develop a common dispute resolution process that would apply to all privatized housing projects. The fiscal year 2020 NDAA includes requirements reinforcing this initiative, specifically stating that the military department Secretary concerned shall implement a standardized formal dispute resolution

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<sup>25</sup>Public Law No. 116-92 (2019).

<sup>26</sup>In addition to the provisions discussed in our draft report, the fiscal year 2020 NDAA included provisions related to other elements of MHPI, such as reporting of medical issues, use of non-disclosure agreements, and others.

<sup>27</sup>Pub. L. No. 116-92, § 3011(b).

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process to ensure the prompt and fair resolution of disputes between landlords providing housing units and tenants residing in housing units concerning maintenance and repairs, damage claims, rental payments, move-out charges, and such other issues relating to housing units as the Secretary determines appropriate.<sup>28</sup> Additionally, the statute requires that each military department Secretary designate the installation or regional commander in charge of oversight of housing as the deciding authority under the dispute resolution process.<sup>29</sup>

- **Reviewing MHPI resident satisfaction data collection process and the process by which DOD measures and reports on resident satisfaction data.** According to OSD officials, the department is reviewing the process by which it measures and reports resident satisfaction data, and has plans to review the survey questions used to measure resident satisfaction. In line with these planned efforts, the fiscal year 2020 NDAA further requires that DOD's reports to Congress include additional information, such as the results of residence surveys and other factors related to the condition of privatized housing.<sup>30</sup>
- **Standardizing Performance Incentive Fee Ranges.** In October 2019, OSD issued new guidance standardizing the performance incentive fee ranges across the military departments.<sup>31</sup> The fiscal year 2020 NDAA requires that DOD publically report information regarding the use of performance incentive fees.<sup>32</sup> The statute also requires that DOD take into consideration any decision a commander renders in favor of the tenant in the formal dispute resolution process in determining whether to pay or withhold all or part of any incentive fees for which a private partner may otherwise be eligible under the contract.<sup>33</sup>

In addition to requirements impacting current DOD initiatives, the fiscal year 2020 NDAA included requirements for increased oversight of the

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<sup>28</sup>Pub. L. No. 116-92, § 3022.

<sup>29</sup>Pub. L. No. 116-92, § 3022.

<sup>30</sup>Pub. L. No. 116-92, § 3016(d).

<sup>31</sup>Assistant Secretary of Defense for Sustainment Memorandum, *Common Incentive Fee Framework for Military Housing Privatization Initiative Projects* (Oct. 28, 2019).

<sup>32</sup>Pub. L. No. 116-92, § 3016(a).

<sup>33</sup>Pub. L. No. 116-92, § 3013(a).

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physical condition of privatized housing. For example, the statute requires the Secretary of Defense to designate a Chief Housing Officer to oversee housing units, including the creation and standardization of policies and processes regarding housing units. The statute also requires the Secretary of Defense to establish a uniform code of basic standards for privatized military housing, as well as plans to conduct inspections and assessments of the condition of privatized homes.<sup>34</sup>

However, both DOD and private partner representatives have cited several challenges that could affect their ability to implement initiatives aimed at improving MHPI. Specifically:

- **Timeliness of implementation due to the need to collaborate with and obtain input and agreement from the large number of stakeholders involved in privatized housing.** According to DOD officials and private partner representatives, many of the initiatives designed to improve privatized housing not only require agreement between DOD and the private housing partners, but also discussion with and, in some cases, approval by the project bond holders.<sup>35</sup> Because DOD does not have the ability to unilaterally make changes to existing business agreements, this need for stakeholder agreement limits DOD's control over the implementation timeline of any initiative that requires changes to a project's business agreement.
- **The need for more military department staff with targeted expertise.** The military departments reduced their involvement in daily privatized military housing operations as part of the overall privatization effort, to include reducing staffing levels at the installations. Military housing office officials at over half of the installations we visited stated that reduced staffing levels impacted their ability to carry out oversight duties, such as work order data analysis and housing inspections. Each of the military departments has plans to increase the military housing office staffing at each installation to allow for enhanced oversight. In particular, according to military department officials, these positions will focus on quality control and quality assurance of the maintenance of privatized homes.
- **The potential for unintended negative financial impacts on the projects that could outweigh the intended benefits of the**

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<sup>34</sup>Pub. L. No. 116-92, §§ 3012(a) and 3051, respectively.

<sup>35</sup>Privatized housing projects were generally financed through both private-sector financing and funds provided by the military departments. Projects obtained private-sector financing by obtaining bank loans and by issuing bonds.

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**initiatives.** OSD officials and private partner representatives have expressed concern that some initiatives could result in unintended financial consequences for the housing projects. For example, increased frequency of change-of-occupancy inspections could result in homes remaining vacant longer than planned and therefore not collecting rent. This could unintentionally impact a project's cash flow. Some of the private partners noted that the financial impact of unfunded requirements to projects that are already experiencing financial distress could result in even fewer funds available to reinvest in improvements to the current and future physical condition of the homes.

Without assessing risks to the financial viability of the MHPI projects associated with the implementation of these initiatives aimed at improving privatized housing, DOD's efforts to improve the privatized housing program over the long term could be compromised.

In summary, as we state in our draft report, we found that while DOD and the private partners have taken steps to address concerns raised about their ability to adequately maintain and oversee the condition of these housing units and provide quality housing for servicemembers, the extent to which the efforts will be sustained and result in improvements remains unclear. Our draft report includes several recommendations to OSD to strengthen oversight of MHPI, such as updating oversight guidance and assessing the risks to the financial viability of housing projects. Our draft report also includes recommendations to the military departments to enhance monitoring of privatized housing projects, such as improving processes used for data collection; reviewing private partner performance; collecting and reporting resident satisfaction data; and communicating with residents.

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Chairwoman Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have at this time.

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## GAO Contact and Staff Acknowledgments

If you or your staff members have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or [FieldE1@gao.gov](mailto:FieldE1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Individuals who made key contributions to this testimony include Kristy Williams (Assistant Director), Tida Reveley (Analyst in Charge), Austin

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