

## WRITTEN STATEMENT

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

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Hearing on Military Housing

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### 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. We have worked tirelessly over the last year to demonstrate our commitment to this effort and I will outline some of those key initiatives we have undertaken herein.

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 wellbeing of our service members and their families. We thank you for giving us the opportunity to participate in this important discussion.

Before addressing how we are implementing improvements across our military housing portfolio, please permit me to provide you with a brief summary of my personal background. Following a reorganization of Balfour Beatty Communities' management team late last year, I was appointed 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 improvement of homes, grounds, roads and infrastructure at our 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 for our residents.

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 (DOD) 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. 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 implemented several significant changes over the past year.

#### *Organizational Changes*

In October 2019, we restructured our senior leadership to strengthen the alignment of responsibilities, authority, and accountability. Specifically, we 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 has already allowed the Facilities Management function, for which I am responsible, to have more focused technical oversight, strategic leadership and increased management support.

At the start of this year, we appointed a senior executive to serve as our Senior Vice President of Transformation for Military Housing. This new role is responsible for leading a review of Balfour Beatty Communities operating procedures and ensuring a comprehensive change management process is in place. He will be overseeing the development and implementation of policies that enhance our approach to resident service, maintenance operations and property and facilities management with the use of innovated technology and training.

Over the last year we have also significantly bolstered our local/regional staff and third-party contractor resources. Specifically, we have increased our military housing staffing levels by more than 130 positions. 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. Our regular maintenance staff now has more time to dedicate to preventive maintenance and addressing routine maintenance issues in a timely manner.

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 Balfour Beatty Communities' senior management. This has allowed us to gain more immediate insights into challenges being faced by local teams so that support and resources can be allocated appropriately, and has also helped to 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 responsive and effective maintenance services at most installations, in recent years 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 have simplified the process for residents to report any issues with their homes through the use of an online Resident Portal and mobile app. 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, more than 80% of our residents are now interacting with our team and submitting work orders through the online Resident Portal. Finally, we are further empowering residents by requiring their sign-off on completed work orders.
- **Established a uniform Temporary Relocation policy** which provides a consistent approach when assisting 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, to provide comprehensive HVAC services across all homes in our military housing portfolio, including annual inspections, preventive maintenance and corrective repair and replacement.
- **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 more robust training program across the company. The new program includes

in-depth customer service and company culture training and training related to maintenance and environmental management work order policies and procedures to ensure comprehensive awareness and compliance.

### *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 designed to improve the living experience for our residents.

- **Enhancing resident engagement, communication and transparency.** We have added a new Resident Engagement Specialist position 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 in the community 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 of our military housing employees to underscore the importance the company places on business integrity and ethics and to clearly state unacceptable practices. In addition, we have conducted 'BBC Exceptional Customer Service' training with all employees to refresh their understanding of best practices and management expectations, and hosted an in-person work order process training course with all Work Order Administrators across our portfolio.
- **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.
- **Conducting a lifecycle analysis of our 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 are actively collaborating with the Department of Defense (DoD) and each branch of 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. We maintain comprehensive environmental management policies and procedures designed to monitor these environmental hazards and all other regulated environmental hazards found in housing in accordance with applicable regulations and industry standards.

Below we highlight the specific actions we have taken to ensure potential hazards are carefully managed by adopting rigorous protocols across our military housing portfolio.

- **We have bolstered our Environmental Management team** with the addition of Regional Environmental Specialists. Reporting to our Environmental Director, these team members advise our local teams on environmental issues, monitor environmental projects and contractors, and assist with resident communications on environmental-related repair/remediation work. In addition, we retained a third-party expert mold remediation firm that advised us on enhanced mold/moisture 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, we have engaged licensed contractors, 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 are engaging Quality Control Specialists to increase the review of completed environmental work orders and validation of work performed to improve our commitment to safely managing potential environmental hazards.
- **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, are now being conducted during regular preventive maintenance visits throughout the year.

### **IV. 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 DoD 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 family housing.

We are actively participating in meetings with the DoD and Services to help implement the MHPI provisions in the 2020 National Defense Authorization Act. 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
- Developing a uniform mold policy
- Developing a uniform resident displacement policy
- Collaborating with the Services on incentive fee metrics

In addition to these efforts related to the NDAA, we are actively exploring innovative ways to enhance the MHPI and address some of the challenges it has faced, including:

- **OMB Scoring of New Projects and Project Refinancing:** At the inception of the MHPI program and through 2015, the Military Departments were able to enter into these transactions without requiring the Department to fully score the private sector debt that was raised either through bond or private investments, preventing negative impacts on the Services' annual operating budgets. This was permitted under the terms of an OMB memorandum known as the 'Raines Memo'. These OMB scoring provisions, which were changed in 2012 and officially implemented in fiscal year 2015, greatly restrict the housing companies' ability to leverage new or additional private sector debt.

Financial resources previously available in the commercial real estate space (refinancing, restructuring, adding equity, extending terms, etc.) are now unavailable or are extremely difficult and time consuming to enact under the post-2015 OMB scoring rules. Reinstating the original scoring methodology for the MHPI would provide the housing companies and the DoD with the greater flexibility needed to optimize and expand these privatized partnerships, thereby accelerating the funding and execution of renovations and improvements to existing homes and infrastructure.

- **Leveraging Reinvestment Account Deposits:** For those project owners with multiple projects within the same Branch of Service, there may be an opportunity to aggregate the projects' yearly deposits to their respective reinvestment accounts in order to bring in additional private equity funds. This provides the Services with greater flexibility to use funds available within and across multiple project reinvestment accounts in order to execute needed renovations and improvements to existing homes and infrastructure. We are currently collaborating with the Services in this area.
- **Basic Allowance for Housing (BAH) Rate Stabilization:** BAH is the only source of revenue and thus the financial engine for the MHPI projects. Congress and the DoD have, from time to time, revised the level of BAH funding, resulting in significant swings in the BAH rates as established by the Defense Travel Management Office in some geographical areas over the years. The GAO has conducted several reviews of BAH with regard to the process for determining rates and has called for more transparency in the BAH data collection and rate calculation process (GAO-11-462: Published: May 16, 2011).

BAH rate stabilization would allow the MHPI projects to better budget, plan, program and execute both short- and long-term capital improvement expenditures. We are currently participating on the BAH-MHPI Task Force to help guide improvements in this area.

## V. CONCLUSION

In summary, over the last year 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 and improve leadership oversight across our properties.
- We have implemented extensive changes to our work order processes.
- We have increased staffing levels, adding quality control and environmental specialists and retaining third-party contractors to provide specialty services, particularly for HVAC maintenance and servicing and mold remediation.
- We have implemented measures to strengthen oversight of the management and handling of potentially hazardous material located in some older homes.

These efforts are just the beginning of a transformational change across our military housing portfolio. We acknowledge there is more work to do and our teams are continuing to collaborate with all stakeholders to deliver ongoing innovations and improvements.

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 exceptional living experiences.

Our goal is to provide our residents with safe, quality homes supported by superior customer service and prompt, effective maintenance support. 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 and the entire Balfour Beatty Communities team.