

TESTIMONY OF JARL BLISS
PRESIDENT, LINCOLN MILITARY HOUSING

BEFORE THE
SUBCOMMITTEE ON PERSONNEL
AND THE
SUBCOMMITTEE ON READINESS AND MANAGEMENT SUPPORT
OF THE
SENATE COMMITTEE ON ARMED SERVICES

FEBRUARY 13, 2019

Chairman Tillis, Chairman Sullivan, Ranking Member Gillibrand, Ranking Member Kaine, and Members of the Subcommittees:

Thank you for the opportunity to testify before you and your subcommittees this afternoon concerning the Military Housing Privatization Initiative (MHPI), and, specifically, Lincoln Military Housing's (LMH) provision of residential property management services to our women and men in uniform through that program. LMH welcomes your subcommittees' oversight of the MHPI to ensure that all of the public-private ventures (PPVs) are delivering the highest level of service to military families with a level of integrity that reflects our Nation's gratefulness for their sacrifice.

INTRODUCTION

LMH is an affiliate of Lincoln Property Company (LPC), a Dallas-based residential and commercial property management company with a 54-year history of outstanding customer service. LMH, formed in 2001 to participate in the MHPI, is extremely proud of our nearly two decades of partnership with the Department of Defense (DOD) and our service to the military community through the program.

As your subcommittees are aware, in the mid-1990s, military family housing was in serious disrepair; residents at that time rated their satisfaction at around 60 out of 100 and DOD estimated that rehabilitating the housing stock would cost taxpayers at least \$16 billion over 30 years. Through the MHPI, private sector investment in military housing has exceeded \$20 billion over the past 16 years, and military families have experienced a marked improvement in the quality of housing, as evidenced by a 20-25 point increase in their self-reported satisfaction scores across the portfolio of homes.

Today, LMH manages around 37,000 residential units through the MHPI, of which approximately 7,000 are at Camp Pendleton and 4,300 are in the Hampton Roads area of Virginia. Over the last 16 years, the PPVs in which LMH participates have invested about \$4 billion, of which amount almost \$1.125 billion in private capital has been invested in the Camp Pendleton/Quantico Housing project alone. Over the next decade, LMH, with the approval of and in consultation with our DOD partners, plans to spend at least \$450 million more in this project and over \$2 billion more across our entire portfolio.

While LMH is proud of our record, we acknowledge that one of the reasons for this hearing is a series of published media reports implying that LMH has cut corners and failed to provide quality housing to servicemembers. LMH welcomes and encourages military families to raise complaints about their housing and we regret when even one servicemember family is dissatisfied with our performance. We recognize that some issues have become compounded due to some servicemembers' feeling like there is a breakdown of trust and communication with LMH. We are committed to fixing those issues in a manner that puts the readiness of military families first. As your subcommittees conduct oversight of this issue, however, we wish to highlight the following points:

- LMH has strong ethical and economic incentives to deliver the highest level of customer services to servicemember families because the success of the PPVs established under the MHPI depends wholly on LMH's ability to maintain satisfied residents and high occupancy rates in its housing. If LMH were to cut corners and provide lower quality housing, many servicemembers may choose to use their Basic Allowance for Housing (BAH) to live in non-military housing.
- Both in policy and practice, whenever LMH's online or 24/7 telephone customer service center receives a service request relating to moisture or mold in a home, a trained LMH technician responds to the family within 30 minutes—an "emergency" level of response because mold usually indicates water intrusion. Once at the residence, the technician assesses the type of repair or remediation needed and works with the family to schedule the service. Every mold or water intrusion service request generates three follow-up visits in the days and weeks after service is performed to confirm the repair or remediation worked and the family is satisfied. On an annual basis, mold work orders constitute less than one percent (0.6%) of service requests, even at coastal installations where relative humidity levels are naturally high.
- LMH is proud of our service to our special class of residents. Servicemember families sacrifice greatly in service of our national defense; they deserve to have complete confidence in the condition of their housing, which contributes to readiness. While we disagree with the characterization of our property management services in recent media stories, the important issue is how the MHPI community—Congress, the DOD partners, and the PPVs—moves forward to improve upon past success and to ensure the level of program integrity our servicemember families expect and deserve.

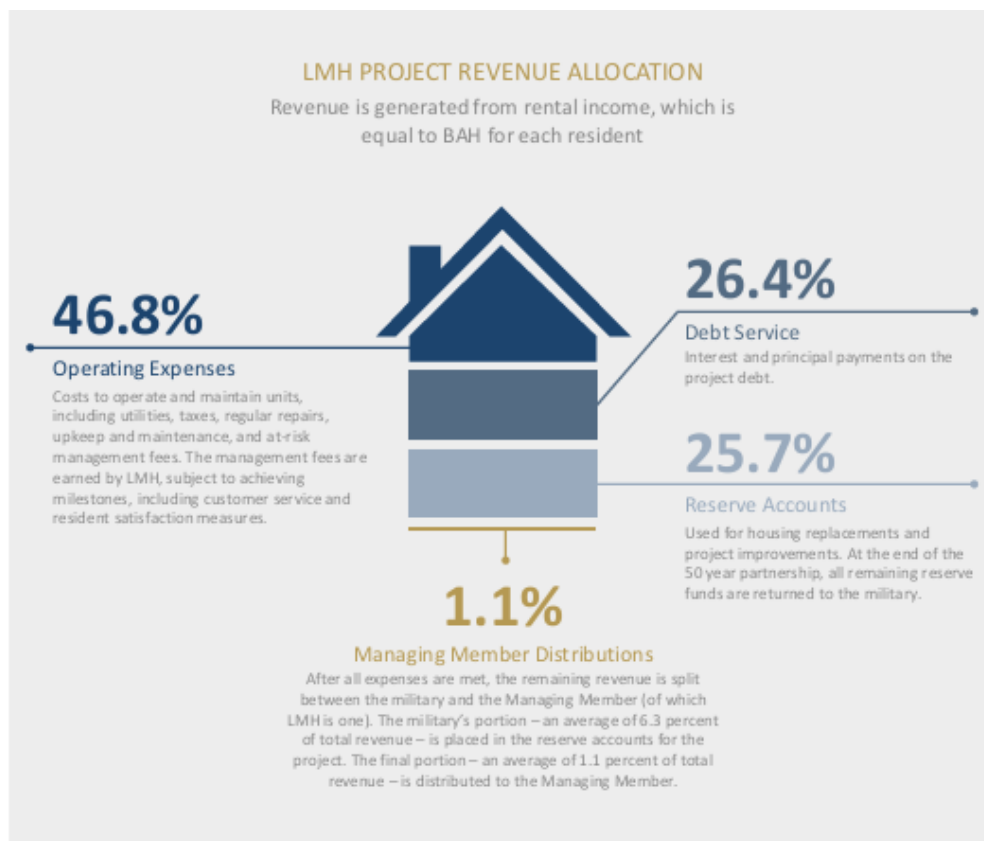
LMH recognizes that there is always room for improvement. To that end, LMH has commissioned an independent review of our mold policies and procedures, training and communication to determine how we can improve the experience of our military families in the housing units we manage. We look forward to partnering with Congress, DOD, and especially our residents to restore residents' trust and improve upon our ability to deliver the highest quality property management services to the families that wear the Nation's uniform.

BACKGROUND ON LINCOLN MILITARY HOUSING AND THE PPVS

As your subcommittees review LMH's performance as a MHPI private partner, it is important to understand the details of how our PPVs work so that you can assess the parties' relative incentives and performance, along with the existing DOD oversight mechanism for the PPVs. A PPV is essentially a base-specific public-private partnership under which DOD enters into a joint venture with a private sector company. At all times, the PPV holds title to the housing stock on the base. DOD retains the underlying land and provides a ground lease to the PPV for a 50-year term. At the expiration of the lease, the PPV must return the land and housing stock to DOD in the same or better condition than at the beginning of the lease. Additionally, all monetary assets are distributed to DOD at the end of the partnership. The PPV contracts with a property management company for management services.

The PPV is financed primarily by securitizing the BAH of the military families that live in military housing. As you know, each servicemember’s BAH is set by DOD according to rank and cost of living in a given geographic location. LMH plays no role in setting a servicemember’s BAH. Each servicemember receives a BAH and at all times has the choice whether to live in military housing (which is typically but not always on-base), in which case the servicemember family’s BAH is paid to the PPV as rental payment, or whether to take the BAH as a check-in-hand and seek housing in an off-base community. Currently, over 70% of military families *do not* live in military housing for a variety of reasons. Sometimes it is for a particular school district; other times it is because they find housing off-base for rent lower than their BAH so they are able to save part of their BAH for other expenses.

By the MHPI’s design, the PPV’s responsibilities fall into three main categories: managing the military housing, servicing the PPV’s debt, and saving for (and actually making) capital improvements necessary to preserve or improve the condition of the housing stock as required by the 50-year ground lease. As shown in the diagram below, each BAH dollar that flows into LMH’s PPV portfolio is allocated across these three accounts in the average percentages shown below.



As you can see, nearly half of every BAH dollar is invested in operating expenses, which includes property management services, all related maintenance, community services, resident events and tax obligations. Unlike a traditional P3 where the private investor’s primary pecuniary interest is in residual equity, LMH’s revenue is derived primarily from providing

property management services to military families. Some of our fees are earned only when we meet certain performance standards, of which customer satisfaction is one.

The next quarter of every BAH dollar goes to debt service—paying interest on the private capital borrowed against future BAH revenue streams. The next quarter goes to a capital “reserve account,” which are funds that may only be used for larger and strategic improvements (large-scale renovations and, when appropriate, replacement of existing military housing) pursuant to the operating agreement. This long-term sustainment fund is security for DOD, *i.e.* to ensure that the housing stock is maintained in a high-quality fashion and will be returned at the end of the 50-year lease in good repair. It is important to understand that any and all decisions regarding the use of these funds must be made jointly by DOD and LMH. The segregation of these funds is a key feature of the MHPI and is meant to ensure that necessary improvements to military housing are not sacrificed for other DOD priorities, as was sometimes the case prior to MHPI.

Finally, on a portfolio-wide average basis, there is a 1.1% LMH Managing Member distribution. LMH’s primary interest in a MHPI transaction is fee-for-services, which are based upon LMH’s performance and accountability as measured through benchmarking and resident satisfaction scores. LMH can also be dismissed if we fail to maintain performance above certain standards.

Given this structure, it is clear that LMH has zero economic incentive to cut corners on quality property management. Beyond economics, LMH has a strong ethical commitment to servicemembers and their families. LMH’s employee workforce, over 60% of whom are veterans or have active-duty military in their families, would find it offensive to treat fellow servicemembers with anything but respect and dignity. The vast majority of LMH’s military housing is offered in very competitive housing markets. The success of the PPV depends entirely on LMH’s ability to offer and continuously provide quality housing to military families because high occupancy levels are needed to sustain the PPVs from BAH revenue. If LMH were to provide substandard property management services, military families would consider moving out of military housing and into residences in communities surrounding the base.

To the contrary, the military installations LMH services have some of the highest occupancy rates in the country. As mentioned, our overall resident satisfaction scores, as measured by an independent surveyor, are more than 20 points (on a scale of 100) higher than the resident satisfaction scores before the MHPI was enacted. At Camp Pendleton alone, LMH has invested \$1.125 billion in private capital in building new homes, renovating existing homes, and constructing club facilities, pools, playgrounds and dog parks. As an example, prior to MHPI, the families at Camp Pendleton had just one community swimming pool for over 7,000 families. Today there are 17 for the same number of families.

Finally, in LMH’s experience, the PPV model works only when all of the parties—LMH, the DOD partner, and the residents—work together and keep an open line of communication to address issues that arise from time to time in the community. LMH offers regular town halls and “meet the manager” days where residents can learn more about how LMH is investing in the community or can tell us if they believe their voices are not being heard through normal channels. Every resident has many tools to redress concerns. In the first instance, residents can

contact LMH to resolve an issue. Most do just that, primarily by calling our 24/7 customer call center to report maintenance and other issues. If, however, a resident believes that he or she is not receiving an adequate response from LMH, the PPV model allows the resident to raise the concern with the military housing office on base, which then intercedes on the resident's behalf as the local representation for the installation Commander. This process is communicated when residents move-in, and it is shared again (known as the 3-Step Process) quarterly when residents are invited to our "Meet the Manager" events. Finally, every resident also has the right to complain to state and local housing authorities, which, under our resident lease agreements, have jurisdiction to enforce state and municipal laws housing codes.

LMH'S MOLD AND MOISTURE REMEDIATION PROCEDURES

This section describes how LMH handles mold and moisture issues when they arise. In general, the subcommittees should know that LMH regularly reviews and updates all of our management policies and procedures on a regular basis. This testimony, however, will focus on mold remediation.

Mold and mold spores are naturally occurring in virtually every environment. It is in every hearing room in the Senate complex and in all of our homes. The common mildew that forms on the caulk or grout in a shower is mold. While mold spores are invisible to the naked eye, what most people refer to when they say they see "mold" is actually mold growth. Mold growth occurs when spores combine with sufficient moisture and a nutrient source, like dust, soil, paper, or other organic materials.

Mold growth in buildings is not readily preventable except by controlling the source of moisture needed for mold spores to grow. According to the State of California, "[o]rganic matter is almost always available, so whether mold grows depends mostly on whether there is moisture."¹ Excessive moisture can be caused by a number of factors, including plumbing or roof leaks or through inadequate ventilation in shower and bath areas, crowded storage areas, and other causes. Humid areas of the country—including the coastal areas where Hampton Roads and Camp Pendleton are located—are more prone to mold issues than drier areas.

Mold growth can occur quickly when conditions are right. Mold is a symptom of excessive moisture—a common problem in the property management world that must be remedied promptly because unaddressed water intrusion can result in extensive damage. An area with no observable mold growth can develop into a problem in less than 48 hours. While LMH does annual preventive maintenance visits on every home to check for signs of mold, water intrusion or other issues, unless we are inside a home every 48 hours (which would be unduly disruptive to residents), mold spores may turn into mold growth without us being aware. As such, LMH and other property managers rely to a significant degree on residents to report mold and water intrusion in a timely way so the issue can be addressed.

LMH's procedures for mold assessment and remediation exceed what is recommended by the State of California and the U.S. EPA. Under LMH's management plan, mold and water

¹ CAL. DEPT. OF PUB. HEALTH, INDOOR AIR QUALITY SECTION, FREQUENTLY ASKED QUESTIONS ABOUT MOLD, <https://www.cdph.ca.gov/Programs/CCDPHP/DEODC/EHLB/IAQ/Pages/Mold-FAQs.aspx>

intrusion are considered the most urgent type of maintenance issue and LMH responds to every call about mold or water intrusion within 30 minutes.² A trained technician contacts the resident to get more information on the type of issue (for example, a roof leak or HVAC concern) and schedules a repair visit with the resident. The technician visually inspects the area and if needed uses a moisture meter to determine if any materials have been water damaged. If there is mold growth on a nonporous surface like an HVAC register or a metal window frame, the technician will follow the EPA guidelines and clean the surface using an appropriate cleaner. If there are signs of water damage or mold growth on porous materials like drywall paper or wood flooring, the technician will schedule replacement of the damaged material as soon as possible in consultation with the family's schedule. If there is a larger area of mold, LMH will contract with a qualified third-party mold remediation company to perform the work. In such cases, LMH offers the family temporary living accommodations at a guest suite or local hotel at no cost to the residents until the work is complete.

After the remediation is complete, a LMH technician comes back to the resident's home three times over the next few weeks to confirm that the source of the moisture has been fixed and that mold growth has not returned. LMH tracks these visits in property management software called Yardi, to which the DOD housing office has access and can monitor LMH's follow through on a house-specific basis. Additionally, in many instances the local military housing office is notified of the mold issue and participates in communications and planning with the residents.

Even in higher humidity areas like Camp Pendleton and Hampton Roads, mold work orders account for less than one percent (0.6%) of LMH's call center work orders. In preparation for this hearing, LMH asked LPC, our conventional property management company which manages 140,000 plus homes throughout the country, to provide the percentage of mold and water intrusion tickets for non-military housing residential properties, and the percentage was generally the same as it was for military housing.

THE PATH AHEAD: HOW CAN LMH BETTER SERVE MILITARY FAMILIES?

LMH takes very seriously whenever any resident family feels like their concerns have not been remedied in a professional and satisfactory way. Every day, we work with servicemember families and try to go above and beyond to serve their needs because we understand the unique nature of their residency and their contribution to the readiness of our Armed Forces. We regret that some residents feel that their concerns have not been adequately addressed.

At Camp Pendleton alone, we accommodate about 7,000 families each year. While we are proud of our track record and resident satisfaction scores, it is impossible for any enterprise to deliver 100% satisfaction all the time. One unsatisfied customer is one too many and we do everything we can to prevent it. But when issues inevitably arise, we work hard to engage all the stakeholders, including our military partners, to address the issues and try to mitigate them in the future. Working with the on-base Government Housing Office, we try to do whatever it takes to earn the resident's trust and satisfaction.

² Other "emergency" issues include fire, gas leaks, carbon monoxide hazards, broken windows, and sewage backups.

LMH believes that no matter how well we serve military families today, we can always do better tomorrow. No property management company—especially one that serves our Nation’s military—should ever feel so satisfied in its performance that it ceases to strive to provide better service. Each year LMH reviews the results of the annual Resident Satisfaction Survey, together with over 20,000 individual surveys completed on work orders and has actively sought to partner with DOD to continue to improve how the PPVs can further increase customer satisfaction and the quality of the housing stock we manage. In addition, LMH has hired an independent third-party expert to review our entire moisture and mold management program, including our prevention and remediation procedures. We are eager to see whether there are new methods or best practices that we can employ to make our program more effective and efficient.

LMH is exploring new ways to communicate with residents about mold prevention and remediation and any other issues that are of concern to our residents. Even when there is a mold or water issue in someone’s home, we never want a family to feel that they have to go somewhere else to have their concerns heard. LMH commits to doing more to foster better lines of communication with residents. Most important, we welcome residents’ input into how we can improve our responsiveness to their concerns in a productive way. We understand the urgency with we need to act to regain the trust of the servicemember families we serve, and we look forward to partnering with your subcommittees to ensure more positive outcomes for our men and women in uniform.