

DEPARTMENT OF THE AIR FORCE

STATEMENT BY

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BEFORE THE

**JOINT SUBCOMMITTEE ON PERSONNEL & READINESS AND MANAGEMENT
SUPPORT**

UNITED STATES SENATE COMMITTEE ON ARMED SERVICES

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MILITARY HOUSING PRIVATIZATION INITIATIVE OVERSIGHT

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Introduction

The United States Air Force endeavors to build, operate, and maintain installations which serve as power projection platforms in support of multi-domain joint warfighting operations, the foundation for generating combat power, and safe and healthy communities for our Airmen and their families. The health and safety of our Airmen, their families, and the communities in which we serve is our priority, and the quality of life of our Airmen is key to meeting our recruiting and retention goals. A significant component to the quality of life of our Airmen is access to adequate housing. We share the concerns of our Airmen as well as the concerns of this Committee when we are confronted with instances where our housing objectives have not been met. When there are challenges, Air Force leadership owns it. We intervene with the project owners, advocate for our residents, and support installation commanders in our mission to take care of our Airmen and their families.

Currently, the Air Force provides 74,500 family housing units worldwide for use by our Airmen and their families. In 1997, the Air Force began a journey to privatize its stateside housing inventory in an effort to improve the quality of housing for the service members and families living on our Air Force bases. We sought to leverage private sector funding and expertise to provide quality housing for our members while shedding a non-core warfighting function. In the first 16 years, the Air Force completed 32 projects that privatized housing at 63 installations with a total end state of 53,237 homes. Of these, 18,028 existing adequate homes were conveyed at closing, and \$619 million in Air Force scored costs were used to obtain \$8.3 billion in total development through private partnerships to renovate 12,595 homes and construct an additional 22,219 homes. Of the 32 projects, 28 are now complete (42,786 homes) and four are still in development (10,451 homes). Twenty-two years into this journey, we're focused on overseeing the long-term project health and sustainment of these projects with a focus on providing a quality housing experience for our service members.

Today, the privatization of our military housing has been generally successful in providing quality communities that our Airmen choose to live in. As evidence of this, our 2017 customer satisfaction survey, conducted by a third-party agency, returned a rating of "Very Good" (81.8%) with military occupancy rates of 90% across the Air Force. As can be expected with any housing portfolio of this size and scope, we certainly have some challenges at a few of our installations as well as opportunities to improve. Recently-published articles critical of military privatized housing have highlighted these known challenges that we were already actively working to resolve with the project owners, residents, and installation commanders.

To this end, the Air Force has a comprehensive portfolio management process. Specifically, the Air Force has housing offices at each of our installations that serve as advocates for our families. They engage daily with the project owners' staffs and residents, visit housing units, and assess compliance with transactional documents for privatized housing. Additionally, the Air Force established a centralized organization within the Air Force Civil Engineering Center (AFCEC/CI) to work directly with our installations and privatized project owners to address both individual project and broader portfolio concerns. When local housing offices are unable to resolve residents' housing issues, they can elevate those issues through their chain of command or directly to AFCEC/CI. Finally, AFCEC/CI works directly with project owners and with the Deputy Assistant Secretary for the Air Force for Installations (SAF/IEI) as necessary to resolve resident's concerns with privatized housing.

Through these Air Force resources, we conduct oversight of the 32 projects across our 63 installations. We focus on proactive interventions in an effort to identify and prevent problems before they happen. For instance, AFCEC/CI conducts quarterly project reviews that include meetings with installation leadership, project owners, and the housing offices to address project performance. Where warranted, AFCEC/CI will establish corrective action plans to bring performance back into alignment with transactional documents. AFCEC/CI also conducts annual site visits to each installation, visiting a sample of the housing units and assessing compliance with project requirements. AFCEC/CI and SAF/IEI conduct regular Program Management Reviews to address a wide range of issues across the entire portfolio of privatized projects and work closely together on an almost daily basis with installations to resolve resident concerns. Finally, AFCEC/CI, SAF/IEI, and the project owners meet twice a year to share best practices, discuss lessons learned, and conduct one-to-one feedback sessions with the partners. Through this process, the Air Force works diligently with installations, residents, the chain of command, and project owners to resolve all concerns to ensure that our service members have a positive family housing experience and that any challenges they have are resolved quickly and fairly.

Current Focus Areas for Addressing Privatized Housing Challenges in the Air Force

Tyndall Air Force Base Rebuild

On October 10, 2018, Category 4 Hurricane Michael made landfall near Tyndall Air Force Base, Florida. With sustained winds of 155 miles per hour, Hurricane Michael remains the strongest hurricane on record to hit the Florida Panhandle. Tyndall Air Force Base sustained catastrophic damage from the

eyewall of the hurricane. The storm resulted in the largest loss in the Air Force Privatized Housing Program history: all 867 Tyndall Air Force Base homes were damaged, from roof and siding damage to complete losses. Immediately following the hurricane, the project owner initiated response efforts to preserve salvageable structures, clear debris from the neighborhoods, and create safe access for residents to recover their belongings. Additionally, they immediately stopped collecting Basic Allowance Housing payments (Oct 11, 2018), began the process of cancelling tenant leases, and engaged with their insurer to begin casualty insurance damage assessments and invoke business interruption insurance to ensure the solvency of the larger project. The Air Force is currently working to provide housing to support Tyndall Air Force Base's enduring missions and to assure financial stability to the Air Education Training Command Group 1 Housing Privatization Project that includes Tyndall, Sheppard, Altus, and Luke Air Force Bases. The Air Force is working with the project owner and its private lender to develop a viable course of action to meet these objectives and is fully engaged with the Project Owner, the Office of the Secretary of Defense, and the Office of Management and Budget to map the execution of this project to meet recovery goals. The severity of the damage is still so great that the Air Force, and project owner and its lender need to pursue a formal restructuring of the project, which requires Office of the Secretary of Defense and Office of Management and Budget approval, in order to continue meeting the Air Force's long-term housing requirements for our Airmen at all four installations and assure financial stability within this project.

Lead-Based Paint

The Air Force conveyed 13,426 homes built before 1978 to the privatization projects. Those homes may still contain some form of lead paint or leaded materials. The status of the lead-based paint program at each installation and each project is evaluated annually. Additionally, the Air Force visits a random selection of these homes during the annual visit. While we have identified some documentation issues, the project owners are complying with statutory requirements in the management of lead-based paint in these homes. In areas where we have found elevated levels of lead in homes, like at F.E. Warren Air Force Base where we had a family that resided in privatized housing and whose child had elevated blood levels, the project owners have proactively stepped up to assess the full scope of the problem and are working with residents to ensure their homes are safe.

Mold

Mold is always a challenge in perennial high-humidity climates. Environmental mold spores grow readily when the right moisture conditions are present. Even the best facility designs cannot eliminate the risk. Residents living in areas susceptible to mold growth are provided a mold addendum to their tenant leases, which recommends specific measures they can take to prevent mold growth. Facility design, construction and maintenance are also key to controlling mold. We have identified three installations where facility design, construction, or materials are a key contributor to mold growth in 1,667 homes: Tinker Air Force Base, OK, Keesler Air Force Base, MS, and MacDill Air Force Base, FL. Seventy-six percent of these 1,667 homes were conveyed to these housing privatization projects from the government's inventory.

At Tinker Air Force Base, 398 homes constructed from 2009 to 2012 by the project owner, Balfour Beatty Communities, experienced mold issues. These homes were built using cross-linked polyethylene water lines which were later found to have systemic manufacturing defects. The water lines developed pinhole leaks in the wall system, providing the moisture for mold growth. In May 2018, the Air Force approved \$6.1M in project funds to replace the water lines and relocate families to fully furnished homes (at no cost) while whole-house water line replacements are being conducted; the estimated completion date is May 2019. In June 2018, Balfour Beatty Communities also discovered that roughly 200 newly constructed homes were experiencing moisture problems in mechanical rooms resulting in mold growth. In consultation and with direction from the Air Force, Balfour Beatty Communities remediated the mold. Furthermore, they hired a third-party engineering firm to assess the mechanical room heating, ventilation, and air conditioning systems to determine the causes of moisture issues and recommend further corrective actions. The estimated completion date is May 2019.

At Keesler Air Force Base, the Air Force conveyed 1,028 homes built by Hunt Companies in 2010 to Forest City Military Communities in 2011. Poor workmanship in both the air conditioning systems and the building envelope resulted in condensation. Forest City treated mold as it occurred while seeking remedies from Hunt Construction.

In 2015, Hunt Military Communities purchased the project from Forest City. The Air Force insisted on a Mold Remediation Settlement as a condition of sale. The settlement required Hunt Companies to correct the construction defects within the scope of the original construction contract, representing a \$6.4 million exposure to Hunt Companies. The Air Force worked with Hunt Companies on a multi-phased Moisture Remediation Plan with an estimated completion date of June 2020. Hunt Communities has completed the Test Pilot Phase, Immediate Response Phase, and the first of three stages

of the Sustainment Phase. All 1,028 units have received some work. Stage Two of the Sustainment Phase is 33 percent complete and involves 255 units. Once complete, the project owner will conduct an assessment, and will correct any residual facility moisture issues in the final stage. AFCEC/CI continues to monitor the project owner's compliance with the action plan, including eradication of the mold and correction of the root cause.

At MacDill Air Force Base, 241 units previously built for the Air Force were conveyed to Clark/Harbor Bay. Due to breaches or lack of a vapor barrier, systemic moisture issues were present in these units. The project owner treated the mold while designing projects and plans to correct the underlying cause. In 2017, 94 units were reclad at a cost of \$3.7 million. In 2018, interstitial spaces and stucco repairs were executed, dehumidifiers were added to homes where the air conditioning units were not controlling moisture adequately on their own, and 19 homes were treated for mold growth. This year, an additional 68 units will be reclad.

At all three installations, the Project Owners have taken steps to correct the underlying causes. The corrections have not been as quick as we would like, and there have been instances where the project owner's response has lacked the urgency we would expect. Air Force leadership has engaged with the project owners, retained Performance Incentive Fees, and implemented corrective action plans to address project owner underperformance and inadequate oversight.

Conclusion

The Air Force privatization effort enabled the Air Force to modernize its housing, shed a non-core warfighting management function, and support our members with a significantly higher quality of housing by leveraging private sector funding and expertise. The Air Force takes our responsibility to provide safe and healthy living conditions to our Airmen and their families very seriously. When we identify challenges, we have a consistent history of proactively resolving these issues with the project owners. While we remain focused on addressing sites with facility issues and projects that are struggling financially, these represent a small percentage of the housing inventory. The underlying causes have been identified and corrective actions are underway. As we move forward, our focus is on oversight, sustainment, and the long-term success of the privatized housing portfolio in order to provide safe and healthy housing for our Airmen. We view this as an essential activity to support ready and resilient Air Force installations, which serve as power projection platforms for our nation.