

WRITTEN STATEMENT

Prepared statement by Chris Williams, President Balfour Beatty Communities, LLC

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Hearing on “*Current Condition of the Military Housing Privatization Initiative*”

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Introduction

Balfour Beatty Communities is a diversified real estate services company focused on the acquisition, management and renovation of residential assets in the multifamily, student and military housing sectors. As one of the earliest partners participating 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 U.S. service members and their families. We also pride ourselves in delivering dynamic resident event programming, community gathering spaces, playgrounds, parks and other amenities.

The Balfour Beatty Communities team has been a leader in the U.S. residential real estate market for more than 20 years. Currently, our residential portfolio consists of more than 50,000 units and \$6 billion in real estate assets under management. We were awarded our first MHPI project in 2002 for the privatization of military family housing at Fort Stewart in Hinesville, GA. Today, we are responsible for military housing operations at 55 Army, Navy and Air Force installations in over 30 states across the U.S., encompassing more than 43,000 military homes and 150,000 residents. Through these projects, we have partnered with the Department of Defense to oversee the construction of more than 20,000 new military homes and renovation of 20,000 military homes. In addition, approximately 93% of all net cash flows from our projects have been reinvested back into project reinvestment accounts (amounting to more than \$700 million to date) that are controlled by the Services in regards to timing and scope of use.

Service members and their families may choose to live either on or off an installation, and it is only by offering quality homes on the military installations we serve that we effectively compete for their business. In coordination with the Services, our MHPI projects are required to undergo significant monitoring procedures, which includes compliance checklists, management review committees, site visits and resident satisfaction surveys. Through these processes, we are constantly evaluating our performance to better understand and address resident challenges and concerns. Balfour Beatty Communities also maintains a Resident Bill of Rights that is provided to our residents and outlines the level of quality and customer service they should expect, as well as avenues of recourse residents have if they feel we are not meeting their needs. We also have looked for ways to make our maintenance process better, such as creating the position of Resident Engagement Specialist to our military on-site teams, to provide dedicated customer engagement and ensure our residents are being heard and getting prompt and complete answers to their questions and concerns. This position also is intended to focus on resident education efforts, ensuring that our residents know how to effectively manage their home, identify any safety or maintenance issues, and notify our facilities team so we can deliver a

prompt response. In addition, we have contracted with a third-party firm to perform regular preventative maintenance evaluations on our military homes, allowing our day-to-day maintenance teams to focus solely on ad hoc service requests and provide even greater responsiveness.

Benefits of Privatized Military Housing

Prior to MHPI, typical service request response times were weeks and even months. Residents were required to handle much of their own home maintenance, such as snow removal and lawn care. There were limitations on the number of bedrooms a family could qualify for, forcing them to ‘double up’ dependents in a single bedroom if they were within certain age ranges. Expectant families also could not qualify for a home until a more advanced point in the pregnancy. This is why the transformational change that has occurred in military housing communities as a result of MHPI has been called the single largest Quality of Life effort ever in the Department of Defense and we are very proud to be a leading partner in that effort.

Today, the new and refurbished inventory of military homes allows military families to receive homes that provide one bedroom per dependent as the standard. And families who are expecting qualify for their new home early in the pregnancy, allowing time to get comfortably settled. Military housing under MHPI also offers significantly elevated features, including upgraded flooring, appliances and HVAC systems, as well as the addition of extensive community amenities, from playgrounds, pools and dog parks to community centers, athletic courts and fitness centers.

Another key facet of MHPI has been our focus on creating community through resident events. Our award-winning LifeWorks@BalfourBeattyCommunities® program provides a busy calendar of engaging events and activities for residents of all ages, from fitness clubs and seasonal crafts, to community gardens and cooking classes. A core offering at all of our military communities, this program allows residents to meet their neighbors, socialize and make memories to last a lifetime. In 2018, Balfour Beatty Communities hosted more than 4,700 community events across our military housing portfolio, entertaining, engaging and educating more than 160,000 resident attendees.

Service members have many choices and options regarding where they want to live, and are not required to live in our on-base housing. In fact, approximately 70% of military families reside off-base. Just like landlords in the conventional housing sector, we must compete for renters by offering quality homes, modern amenities and providing robust support services designed specifically for the needs of military families. While we always strive to improve our performance, the average resident satisfaction score across our MHPI portfolio is approximately 84%, which is classified as “Very Good” by an independent third party survey company that is directly engaged by the Department of Defense to monitor property management services of the MHPI projects. In addition, 119 out of approximately 310 neighborhoods within our portfolio achieved awards for “Outstanding” service (based on 85% or above scores).

Notwithstanding our successes in building our housing communities, we believe there is always room for improvement- and to that end, we have implemented procedures to ensure that we both hear and address resident feedback and concerns. Processes are in place for service members living in privatized military housing to escalate issues to our local and regional managers teams, and ultimately the local Army, Navy or Air Force housing officers and base leadership. Balfour Beatty Communities works closely with the housing offices for our Army, Navy and Air Force housing partners and local commanders to proactively provide them with regular reports on maintenance activities, keeping them involved in our day-to-day project operations and working through resident issues at each installation. We meet and

collaborate on a regular basis to discuss resident well-being and concerns to ensure we are consistently delivering to expected standards and meeting our contractual obligations.

Maintenance, Health and Safety Processes

During 2018, Balfour Beatty Communities performed more than 490,000 maintenance work orders throughout our military homes. Of those, 5% involved water leaks or moisture-related issues, and less than 0.5% of resident maintenance requests involved reports of mold. When a resident does report a mold or moisture-related concern, it is considered a Priority Urgent Work Order, which means our Community Manager and/or Facility Manager will visit the home within four hours to perform an initial assessment. Additionally, we invite our local Army, Navy, and Air Force housing partners to accompany our staff when inspecting the home to ensure any problems are being adequately addressed with input from the Services partners. Our teams are trained on how to inspect for and assess mold in homes, as well as determining when appropriate remediation, repair and restoration procedures must be followed. When needed, we enlist the services of certified environmental, engineering and scientific consulting firms to perform and assess air quality and other environmental-related testing; and we engage licensed mold remediation contractors in compliance with all applicable laws and regulations. Where extensive or disruptive repairs are required in a home, residents are provided temporary housing in one of our Patriot Homes (furnished homes in the community used for temporary lodging needs) or an area hotel suite.

With regard to health and safety issues, under the MHPI project agreements, there are requirements to comply with all applicable state, local and federal health and safety laws and regulations. In order to meet these requirements, we have extensive policies and procedures in place (which are reviewed and approved by the Services) that identify the handling of all hazardous materials and environmental-related matters. For example, we have many historical homes in our inventory that contain lead-based paint. As required by law, we advise residents moving into a home constructed prior to 1978 during the lease signing process about the potential presence of lead-based paint in the home. Residents also are given detailed information about how to identify compromised (chipped/peeling) painted surfaces in the home and instructions regarding immediate notification to our team. All pre-1978 construction homes are subject to visual inspections of both the exteriors and interiors on an annual basis (as well as upon change of occupancy), to ensure the integrity of the painted areas of the home and any required repairs are made in accordance with applicable federal EPA, state and local regulations.

Balfour Beatty Communities also maintains a preventative maintenance program that is designed to proactively identify maintenance issues, and ensure homes are monitored on a continuous basis. As part of this program, our team conducts the following procedures:

- Comprehensive check of all life safety systems (smoke detectors, fire extinguishers, range hood fire suppression canisters) as part of every work order/service visit to the home;
- Annual inspection of painted surfaces in pre-1978 homes to identify compromised areas in need of repair/remediation;
- Annual checks of all housing components and systems, interior/exterior; and
- Review of repeat work orders to identify any systemic issues.

Incentive Fee Structures

In commercial real estate, property management firms typically fixed management fees that range anywhere from 3.5% to 5% of gross revenues of the property. Under the MHPI program, management fees were negotiated with two components:

- the first component is a fixed fee (base management fee) based on gross revenues (which average 1.79% throughout our portfolio); and
- the second component is an incentive-based management fee, or performance bonus, or approximately 2.02% of gross revenues.

These incentive fees are based on agreed upon metrics, or performance hurdles, that must be met in order to obtain the fee, which is a unique fee structure not common within the real estate industry. The incentive metrics (which are approved by the Services) are based on objective and measurable data points, including response time on service requests and resident satisfaction scores, as well as command satisfaction on select projects. The determination of the base line for these metrics was motivated by the desire to improve pre-MHPI average resident satisfaction scores of 60% and extended wait times for completion of maintenance repairs. The incentive management portion of our fees is an effective tool for our military partners to use when we are not meeting resident expectations.

Broader Challenges of MHPI

[How the Private Sector Partners Can Help](#)

Balfour Beatty Communities believes there are many ways that we can work together with the Services to enhance the MHPI program. This includes the potential to meet more frequently with members of the Senate Armed Services Committee, the House Armed Services Committee, and other members of Congress, to ensure an open and transparent dialogue can occur regarding areas of interest and concern raised by their constituents. We believe we also can focus on developing additional best practices to improve the quality of life of our service members and enhance their living experiences in our housing. As part of this process, the following areas can be developed to further educate residents:

- how the MHPI program works in general (i.e., under a public-private partnership with the Services sharing in the economic returns on the projects);
- Basic Allowance for Housing (BAH) collection processes (i.e., for service members, monthly rent is collected in arrears);
- the presence and management of environmental hazards in “legacy” homes (i.e., older homes conveyed by the government into the MHPI projects), such as lead-based paint and asbestos; and how residents can continue to feel safe in these homes; and
- how residents can communicate housing concerns and identify the proper housing advocates available to them.

[How Congress Can Help](#)

When MHPI was initially conceived, over 20 years ago, the program was structured to successfully leverage private sector investment and deliver military family housing more efficiently and effectively than previous government-run housing models. The service member’s BAH was identified as a core

component and primary source of revenue for the program. Over the years, changes to scoring requirements and BAH calculation have significantly hampered MHPI projects.

OMB Scoring of New Projects and Project Refinancing: The underlying legislation permitted the Services to enter into these transactions without severely and negatively impacting their annual operating budgets by leveraging private sector debt. However, changes to OMB scoring rules in 2012 but officially implemented in Fiscal Year 2015 hamper the ability of the housing partners to leverage private sector debt. Financial tools available in the commercial real estate space (refinancing, restructuring, adding equity, extending terms, etc.) are not available or are extremely difficult and time consuming to enact under the post-2015 OMB scoring rules. Reinstating the original scoring methodology for MHPI would provide the housing partners and the Department of Defense with greater flexibility to optimize and expand privatized partnerships. In particular, it would allow the housing partners to potentially accelerate renovations and improvements to existing housing.

Basic Allowance for Housing (BAH): BAH is the financial engine and major revenue source for the MHPI program. Congress and Department of Defense have from time to time revised how the BAH rates are calculated. There have been significant swings in the BAH rates in some areas as established by the Defense Travel Management Office. GAO has conducted several reviews on BAH as it relates to its accuracy in determining accurate rates for these data collection areas 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 MHPI projects to better budget, plan, program and execute both short- and long-term capital improvement expenditures.

Military Services End-Strength: Following the 2005 BRAC round, there was significant realignment of forces between installations and two closure actions that impacted bases with MHPI projects. Additionally, there was a decrease in Service end-strength that also affected the financial condition of the projects. Lower than expected occupancy results in decreased funds flowing into the reinvestment accounts, limiting available funds for recapitalization and restoration projects (GAO-18-218).

Conclusion

Delivering an exceptional living experience for service members and their families who call our military communities their home is Balfour Beatty Communities' top priority. The partnerships we have formed through the MHPI program have created jobs, more resilient and sustainable communities, and a means to increase resources for housing and infrastructure programs within budget constraints. Most importantly, our partnerships have nurtured a true sense of community and improved living experiences for military members and their families.

As a vested stakeholder in our communities, we look forward to the continued feedback from military families, our Department of Defense partners and the findings of the Senate Armed Services Committee as we follow our core mission of delivering an exceptional living experience to every resident we serve. We are providing our full support to the Government Accounting Office (GAO) and Department of Defense Office of Inspector General investigations into environmental issues and oversight of the privatized military housing program. We look forward to their observations and recommendations and understanding ways we can improve our operations. On behalf of Balfour Beatty Communities, including our 312 employees who are proud veterans or spouses of active-duty service members, we remain committed to working with Congress to ensure a more proactive and informed approach to the MHPI program going forward.