

NOT FOR PUBLICATION UNTIL
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COMMITTEE ON ARMED SERVICES

STATEMENT OF

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(ENERGY, INSTALLATIONS AND ENVIRONMENT)

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON ARMED SERVICES
JOINT SUBCOMMITTEE ON PERSONNEL &
READINESS AND MANAGEMENT SUPPORT

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Chairman Tillis, Chairman Sullivan, Ranking Member Gillibrand, Ranking Member Kaine, and distinguished members of the Committees, it is an honor to sit before you today with my fellow Service leaders to testify on the Department of the Navy's (DoN)'s oversight of its privatized housing portfolio.

The DoN is committed to ensuring that all Marines, Sailors, and their families live in safe and secure housing that meet or exceed health and safety standards. This commitment stands firm whether our families live in community rentals, government-owned, or privatized houses, or government furnished or leased housing overseas.

Thank you for the opportunity this forum provides for me to voice my commitment to learning where and how we can do better. The DoN works very hard to address any complaints of environmental hazard through multiple actions and oversight, however, house maintenance is a constant effort and we continually strive to improve our response. The Navy learned many lessons in 2011-2012 from a mold issue in Norfolk, Virginia, which we incorporated into better management practices for all environmental hazard responses. That experience shaped how we manage and respond to health and safety concerns in DoN privatized housing today. It is evident there are cases where our housing Partners failed to meet the standards and we must hold them and ourselves accountable. I am committed to continuing to strengthen our oversight of our Partners to ensure rapid remediation of any reported or discovered environmental hazards. Our privatized housing is ongoing and effective – evidenced by our 82% resident satisfaction and 94.3% occupancy rate, however there is always room for improvement.

The Military Housing Privatization Initiative (MHPI) legislation passed by Congress in 1996 empowered the Military Departments to leverage private sector expertise and investment to more quickly improve our military family housing inventory. The DoN successfully leveraged private sector investment to obtain the military equivalent of \$9.8B of improved housing with a DoN investment of approximately \$1.5B. This infusion of private sector resources improved the quality of our privatized housing and increased resident satisfaction across the portfolio. The DoN has 62,713 privatized houses across the United States, and all are currently financially stable.

Privatized Housing Oversight

Our Partners are required to immediately notify the DoN Installation Housing Office of any resident concern involving asbestos, carbon monoxide, lead based paint, radon, security, mold/water infiltration and pest infestation. These issues are documented by our Partners and addressed in accordance with hazardous material management plans, emergency/urgent/or routine maintenance service calls, depending on the severity and situation, and established action plans, including applicable laws and regulations. When issues arise, our Partners perform preliminary investigations to collect relevant and detailed information about the concerns or incidents, and record all health and safety issues in a commercial real estate property management database. Our Partners and government housing staff track all maintenance actions and perform follow-up inspections to ensure resident satisfaction. For mold, water intrusion, pest, drinking water and hazardous material responses, Partners mitigate issues and monitor for recurrence. The DoN has full access to the database and, if there is a health and safety

concern identified, DoN personnel engage in accordance with our Health & Safety Standard Operating Procedures (SOP). The SOP, developed from lessons learned from the Norfolk incident is intended to ensure Navy is aware of potential health and safety risks to residents in privatized housing and they advocate for our Service members and families. The SOP also increases visibility of property management responses pertaining to the health and safety of residents living in privatized housing.

Our Partners routinely monitor houses for Lead Based Paint (LBP), in accordance with all laws, including state laws which vary and may be most strict in locations with old or historic homes. Prior to signing a lease agreement, our Partners provide tenants with a LBP Disclosure Form, and educational materials. At change of occupancy, and/or in response to resident requests, as well as any other requirements for more frequent inspections, our Partners have trained personnel who examine lead-positive components to confirm that all lead-containing components are intact and managed.

The DoN implements robust tools and processes to perform oversight of our privatized housing. We have Business Agreements with each of our Partners across 14 projects that allow us direct access to data to analyze trends, identify systemic issues, and resolve conflicts. At each installation, the DoN maintains an Installation Housing Office that performs oversight of the partner's property management performance. Our DoN Housing directors and staff monitor monthly the partner's property management performance. Any significant or systemic concerns are elevated to the Navy/Marine Corps Region Housing Staff and/or the NAVFAC Business Agreement Managers (BAMs) to engage with the Partners and resolve issues.

Installation Housing Offices

Every Navy and Marine Corps installation has a Housing Office that is responsible for providing advice and advocacy for Service members and families. If a resident believes our Partner is not responsive to their needs or concerns, they can report the issue to the Installation Housing Office. If a resident is dissatisfied with our Partner's response, the resident may contact a Navy or Marine Corps representative at the Installation Housing Office and speak with a military liaison trained in Landlord-Tenant relations. DoN government housing counselors receive issue resolution training from the Navy Housing Learning Center to facilitate resolution of landlord - tenant disputes in community rentals as well as privatized housing. Military members may also report issues to their chain of command or installation Commanding Officer. DoN Installation Commanding Officers and Senior Enlisted Advisors receive training on privatized housing during their pre-command course. In the Navy, a Partner representative usually assists in the training and provides the property manager's perspective to installation leadership. In the Marine Corps, the Installation Leadership Management Program provides training in privatized housing to new Installation Commanders and Sergeants Major.

In accordance with the established Business Agreements, all Partners conduct Resident Satisfaction Surveys (RSS) using a private sector third party company to measure performance against private sector best practice benchmarks. The satisfaction survey is also structured to seek best practices to continually improve customer satisfaction. As previously mentioned, over the past five years, the DoN's resident satisfaction scores for privatized housing have averaged 82.2% and the occupancy rate is

94.3%. Prior to privatization, government-owned family housing RSS scores ranged from Average to Good. Today, our resident satisfaction scores range from Very Good to Outstanding across the program.

Condition of MHPI Housing

The DoN team (NAVFAC BAM and Navy/Marine Corps Region and Installation housing staff) performs annual condition assessments of privatized housing. These assessments review curb appeal, resident compliance, ancillary amenities, common areas, and private partner compliance with environmental regulations. The assessment also identifies noticeable and identified health and safety issues. Pre-work for condition assessments includes review of maintenance logs for residences with multiple service calls for health- and safety-related issues. These are targeted for resident interviews, which allow the Navy team access to the homes as part of the assessment. Our Partners are required to supply documentation that they are in full compliance with all environmental regulations/requirements.

The condition of the DoN portfolio is at levels comparable to or better than surrounding community housing properties near our installations. The DoN selected privatized housing Partners based on qualifications and likelihood for success due in no small part to their experience managing, maintaining and recapitalizing their commercial residential portfolios. Overall, the privatized housing initiative is financially healthy, having recovered from the housing market crash of 2007 – 2009.

Incentive Structures

The DoN uses an incentive structure within the Business Agreements to motivate the Partners to deliver quality performance in their property management and service. Should a project not perform to the agreed upon levels of performance (i.e., service call response time, work order completion rates, and resident satisfaction scores), it can negatively impact the incentive fees. Moreover, should private sector management companies fail to perform, the DoN has the authority to issue Cure Notices to elevate concerns to bond holders financing the projects; potentially affecting a Partner's credit rating. Our goal is to resolve issues before a project goes into extremis, however, our agreements allow us to take this level of action.

Conclusion

In closing, I want to reemphasize that we take the health and safety of our service members and their families very seriously and believe the incidents highlighted in the recent media represent opportunities for us to improve. Thank you for your unwavering support of our Sailors, Marines and their families, and I look forward to your questions.