

**Statement by John G. Picerne
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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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Thank you for the opportunity to appear before you today.

My Name is John Picerne and I am the Founder and CEO of Corvias.

We are a mid-sized company made up of approximately 850 dedicated, caring, hardworking people, who, alongside our hundreds of small, minority-owned, disadvantaged subcontractors, take very personally our commitment to the woman and men who fight for and serve our nation.

Our company has three core principles: best place to work; best provider of service; best community partner. That is the standard the American people should expect from those whose job it is to serve those who serve in the military.

It is in that spirit that I come here to say, on behalf of everyone at Corvias: we want to do right by service members who choose to live in our homes. Any let down of any of our residents is unacceptable. And we are making every effort to fix it.

We're returning to the "gold standard" level of resident care that defined our company, from the start.

Let me share with you what we're doing.

First, we're taking steps to do a better job at resident service.

- We are living the "Corvias Commitment" – a series of specific commitments, to our residents, that we will respond promptly to a request, actively seek their feedback, and make changes when we need to do better.
- We launched a "service surge," to reduce the backlog of work orders, improve our response time to service requests. We shifted resources, authorized overtime, worked on weekends. More people, handling more calls, more quickly.
- We eliminated annual rent increases on our lower demand homes and eliminated fees that may be common in the multifamily real estate market, but aren't right appropriate for the special audience we serve here.
- We're re-opening playgrounds, paving roads and making other investments in community amenities.

Second, we're making a number of structural changes, to ensure that "gold standard" resident service is built into our operation:

- We're hiring 25+ resident service specialists for support across Fort Polk, Fort Bragg and Fort Meade. These people will focus 100 percent on local resident needs.
- We're moving our resident call centers back to the local installations – and out of a remote third-party call center. During regular business hours, residents will once again speak to a local Corvias team member, down the street, when they have a problem.
- We hired a world-renowned specialist – at no cost to the government – to review our mold and mildew procedures, so that here, too, we are living up to the gold standard.
- We're looking at every part of our resident care operations to see where we can do better. Everything is on the table.

Finally, we're getting much closer to the community...and to local installation command.

- We took the proactive step to provide our military partners with a detailed Weekly Work Order Situation Report (SITREP) – a summary of our overall performance, work order details and specific resident cases. If we fall behind, we'll all know it. Full transparency.
- We're spending more time with Garrison Commanders at Army installations and senior level command at our six Air Force bases. We want them to know everything we're doing. We want to hear what's on their minds.
- We're getting out there, in the communities, listening to residents – town halls, Community Information Exchanges, Executive Councils, focus groups. There's no better way to put our residents first.

One of the biggest challenges: residents can feel that it's hard to be heard, that there is no way for them to raise an issue outside of the chain of command. In the era of social media, where everyone has a voice, our residents expect and deserve better.

We're forming resident advocacy groups – at each installation – to speak for the community's interests and give us ongoing, direct feedback. If a resident has a problem, they'll have a fellow resident voice to contact, someone who can act on their behalf.

It is vital that residents can easily contact us — currently we have five different ways, within the housing community and up to Corvias headquarters. Residents have asked for ways to get help, and we hear them. So we are exploring how to bring in 21st century technology to make it even easier, to give our residents more ways of being heard.

We have a lot underway, and a lot to do. But we are seeing results. Our renewed commitment to resident service is starting to pay off.

- In January, our work order completion rate reached 95 percent across our Army installations.

- 97 percent of 3,645 total emergency work orders at our Army communities were responded to within eight hours...and completed within 24 hours.
- The average work order survey score was 4.24 on a 1-5 scale.

Looking ahead, we're starting a major construction push – new homes, renovations, energy efficiency upgrades. Working with Army and Air Force leadership, we're tapping more than \$140 million in a formerly trapped reserve account and a new investment of \$323 million. Work begins this year.

As part of this initiative, Corvias will eliminate any lead-based paint hazards in every home undergoing renovation.

We are also working with our Air Force partners on a long-term housing solution for single unaccompanied airmen at Edwards Air Force Base, beginning in early 2019. Corvias will invest approximately \$100 million: the cost impact to the Air Force is zero.

To get ahead of rising utility costs, we're working with our Air Force and Army partners to install roughly 50 megawatts of solar arrays across Fort Polk, Fort Bragg and Eglin AFB. This will complement the existing 30 megawatts already installed across our military portfolio. Lowering utility costs keeps more money in the program to fund new homes, renovations.

So how did we get here?

Supporting a resident community – within the confines of an Army or Air Force installation – is at once unique and, at the same time, no different than a “civilian” neighborhood.

We have weather issues – like the record rains that soaked the mid-Atlantic last summer, sending water into some of our homes. Our service members move more frequently, meaning we must expend project funds to address the normal wear and tear on a home so they are ready for the next family to occupy. We have competing demands for repairs, investments.

In the past few years, several developments put downward pressure on the partnership – the funds available for resident service, improvements, new construction:

- Sequestration and force structure downsizing reduced demand for on-base housing. Fewer residents.
- Utility costs increased by 11 percent from 2015 to 2018 – more than anticipated.
- A litigation matter across all the partnerships, now resolved, froze the reserve fund – the money used for construction and major improvements – for several years.

If we did nothing to address the financial stress on our projects, the model would eventually collapse. Operational costs would be increasingly difficult to cover. There would not be nearly enough funds to pay for future construction and renovations.

To get us back on the right path, we looked for ways to make the numbers work. We tackled utility costs and how we could limit future increases – by replacing failing ground source heat pumps at Fort Polk, installing solar panels. We pursued new funding avenues – bringing more money into the program, sooner rather than later, to move ahead on improvements.

And, we looked at the service operation. We centralized our call center and maintenance operations. We reduced our local resident support presence, shortened the operating hours for our community centers and even closed a few centers. We adopted a number of customer service practices that are common in the civilian real estate world.

To be clear: we have nothing, financially, to gain from changes to resident service. In fact, investing less in resident service makes it more difficult to attract new tenants.

Changes in resident service operations were one way to ensure adequate support for the reserve fund – money used to support new home construction and renovations. We, Corvias, do not make any more money when less is spent on customer service. This is all about one thing: how does the program have enough funds for the future?

These moves made financial sense...but they took us away from the “gold standard” of resident service that Corvias was known for. This is not the civilian real estate world: we serve a special audience.

In our joint governance, Partnership structure, we – Corvias – and the military leadership are always trying to strike the delicate balance of how to satisfy today’s residents and their families...and still preserve adequate dollars to serve and satisfy 100 percent of future residents.

That is why the MHPI model was designed to be a flexible program vs a rigid contract – so that the government and private partners can make adjustments over time, in the best interests of the program and the residents we serve.

The MHPI partnership model keeps the vast majority of funds where they belong: in the community. For a typical military housing project, a dollar in basic allowance for housing (or BAH) is spent along the following lines:

- Approximately 30 cents of the BAH dollar are for the direct costs supporting the communities – including payroll, supplies, marketing to attract tenants, repairs and home maintenance.
- Utilities, taxes and insurance account for about 17 cents.
- Debt service accounts for about 34 cents.

- About 15 cents is deposited in reserve – to be invested back in the community in the form of new construction, renovations, major improvements. This reserve fund is among the most important parts of the model: it represents the future.

Corvias is paid a property management fee and – if we achieve certain performance goals – an incentive fee. Together, these fees account for approximately four cents of every BAH dollar.

With our partners in the Army and Air Force, we've been on a nearly 20-year journey to improve the quality of life in military residential communities.

In 2001, the U.S. Army selected Corvias to partner with it for a pilot program at Fort Meade. We wanted to see if the partnership could make a meaningful difference in the availability and quality of housing on post.

When Corvias first assumed responsibility for Fort Meade housing, occupancy was in the low 70 percent range and there was a maintenance backlog of nearly 37,000 work orders. Corvias cleared the backlog within 60 days. Occupancy rates soared above 93 percent.

That pilot project helped confirm the partnership model works...and that high-touch resident service must be our top priority, our most important measure of success.

We also learned a few things – both in the Fort Meade pilot and in subsequent projects. We learned that many factors influence the direction and long-term viability of these partnerships.

Occupancy rates falling below what was originally forecast; higher construction costs after 9/11; soaring utility costs: these and other issues would pose an ongoing challenge in the years ahead. They affect the economics of the partnership, requiring us, in collaboration with our military partners, to make adjustments and, at times, tough choices.

The partnerships have come a long way from that first pilot at Fort Meade. MHPI is delivering on its promise to provide higher quality housing to service members and their families.

- In the nearly 20 years since Corvias first partnered with the military, we've built or renovated more than 25,000 homes. More than 9,600 new homes built; 16,000+ homes completely renovated.
- All homes in our portfolio – more than 27,000 in total – will undergo significant renovations and/or replacement during the lifecycle of each partnership.

When it comes to building or renovating homes, we're not talking about a new version of the same old thing. We install amenities available in the conventional rental market outside the installation – pools and splash parks; computer labs; dog parks, fitness centers; walking trails, picnic areas, fire pits and pavilions – to attract residents. We build community centers – 35+ to date.

Our homes are built 100 percent in compliance with Federal regulations, with third-party inspectors. No exceptions, no cutting corners.

Together with our partners in the Army and Air Force, we're proud of what we've accomplished – though we know we need to do better. The thousands of new or renovated homes available to service members. The care, commitment and hustle of our employees who are out there, every day, in communities on 13 Army and Air Force installations nationwide.

Our work with the military is the largest, continuously operating public-private partnership in U.S. history. This partnership has helped to improve – substantially – the standard of living at those installations where we manage homes

In addition to our work with the U.S. military, Corvias applies the same public-private partnership model to other areas.

We work with local governments and government stakeholders to help them tackle tough environmental, energy and infrastructure challenges like storm water management.

We partner with universities to help them meet on-campus housing needs for the students of today and tomorrow.

Our name today, Corvias, is rooted in the Latin phrase, “by way of the heart.” It represents the commitment we bring to our partners. The passion we bring to making a real difference. Our name serves as a daily reminder to lead with our hearts and do right by our communities.

Earlier, I mentioned our three core principles – best place to work; best provider of service; best community partner. With the opportunity to serve the military comes the importance of supporting the community – beyond providing a home.

Corvias employees live by this principle, giving time and money to help the communities we support. Our national giving back program has enabled more than 33,000 hours of community service, and our foundation has awarded \$13 million in scholarships to service members’ sons and daughters, and grants to military spouses.

Throughout our history, we’ve kept Corvias a small, privately-owned and founder-led company – for good reasons.

First: it enables us to make decisions for the long-term, not just the next quarter.
Second: when we see a problem, we can move quickly, go the extra mile. That's what we're trying to do here.

We have always taken pride in being the best at what we do. Although we have slipped, we will get back to that "gold standard" place.

There remain a number of longer-term issues we must address – issues that stress the service model, upset that delicate balance, and will only get tougher over time. We need to keep working with our partners to understand and meet these challenges.

Let me close with where I began – what we, at Corvias, believe.

We believe that our fellow countrymen who serve the nation deserve our best – nothing less.

We believe in the partnership model – to tackle major infrastructure projects, help governments meet citizen needs, make a better quality of life.

And we believe in doing the right thing – in living and working "by the way of the heart."
That's where we came from, and where we're going.

Thank you.