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BANKING, HOUSING, AND URBAN AFFAIRS

HEALTH, EDUCATION, LABOR, AND PENSIONS

ARMED SERVICES

SPECIAL COMMITTEE ON AGING

United States Senate

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Mr. John G. Picerne
Founder & Chief Executive Officer
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Dear Mr. Picerne:

Our military personnel – regardless of where they are stationed – deserve to live in affordable housing that is safe and is not falling apart around them. Failing to provide quality housing strains morale and directly affects readiness; according to the Department of Defense (DOD), “access to affordable, quality housing is a key element affecting the quality of life of military members and their families,” that “directly affects personnel retention and ultimately unit readiness.”¹ But a series of disturbing news reports have raised serious questions about the quality of privatized, on-base housing for military personnel.

The recent allegations of privatized housing project mismanagement that has resulted in unsanitary and unsafe living conditions raise significant concerns about the measures your company has in place to ensure that you provide high-quality housing to military personnel and to monitor and assess your performance and adherence to your agreements with the Military Departments. A recent series of articles by *Reuters* revealed that servicemembers and their families that live in on-base housing have been forced to live in homes with exposed lead paint, vermin infestations, fecal and urine trails, bursting pipes, flooding mold blooms, unmitigated mold growth, collapsed ceilings, fire hazards, electric wiring, and other substandard living conditions as a result of “improper installation, insufficient inspection, and inadequate maintenance” by housing companies.²

These recent reports are not the first time these concerns have arisen. A 2015 report by the DOD Inspector General examined privatized housing at two military installations near Washington, D.C. and found “serious deficiencies at both installations.”³ Advocates for military families have also weighed in. In a letter to the Defense Health Agency, the Tricare for Kids Coalition wrote

¹ Government Accountability Office, “Military Housing: Continued Concerns in Implementing the Privatization Initiative,” March 2000, <https://www.gao.gov/new.items/ns00071.pdf>

² Reuters, “Children poisoned by lead on U.S. Army bases as hazards go ignored,” Joshua Schneyer and Andrea Januta, August 16, 2018, <https://www.reuters.com/investigates/special-report/usa-military-housing/>; Reuters, “U.S. Marine families battle mice, mold and powerful private landlords,” Deborah Nelson and M.B. Pell, November 1, 2018, <https://www.reuters.com/investigates/special-report/usa-military-contractors/>; Reuters, “As U.S. soldiers battle landlord, confidential records shine light on his lucrative business,” Joshua Schneyer and Andrea Januta, December 27, 2018, <https://www.reuters.com/investigates/special-report/usa-military-developer/>; Reuters, “U.S. Air Force’s new housing dogged by construction flaws, imperiling tenants,” M.B. Pell and Deborah Nelson, December 21, 2018, <https://www.reuters.com/investigates/special-report/usa-military-construction/>

³ Department of Defense Inspector General, “Continental United States Military Housing Inspections – National Capital Region,” August 13, 2015, <https://media.defense.gov/2015/Aug/13/2001714158/-1/-1/1/DODIG-2015-162.pdf>

that the Reuters reports echo “stories shared with us from military families [that] detail a picture of negligence in proper oversight and abatement of health and safety hazards such as mold, lead, and vermin in military housing . . . [which] have negatively impacted the health and wellbeing of servicemembers and their family members.”⁴ Marine spouse Crystal Cornwall told USMC Life last fall “I’m appalled at [the military’s] blatant and negligent disregard for the health and safety of their Warfighters and their families.”⁵

Background on the Military Housing Privatization Initiative

In 1996, DOD concluded that the majority of the 300,000 family housing units it owned and operated were in need of renovation because they had “not been sufficiently maintained or modernized” for decades.⁶ The Department estimated that updating these units would take 30 years and cost \$16 billion.⁷ In an effort to save money and reduce the time needed to resolve these problems, the Department proposed a privatization initiative that would allow it to “revitalize three times as many housing units as it would with a military construction project for the same amount of money.” The initiative was projected to allow the Department to meet its goal of “eliminate[ing] all inadequate family housing by fiscal year 2010.”⁸

Congress created the Military Housing Privatization Initiative (MHPI) in 1996,⁹ renewed it in 2001,¹⁰ and later made it permanent in 2005.¹¹ The MHPI allowed the Department to partner with private sector developers who would “own, operate, maintain, improve, and assume responsibility for military family housing” on base and in return have access to federal “direct loans, loan guarantees, equity investments,”¹² and other incentives. The MHPI authorized the Military Departments to enter into lease agreements “for any period that the relevant Secretary . . . determines appropriate.”¹³

Over the past two decades following the creation of the MHPI, the Marine Corps, Army, Air Force and Navy have privatized the vast majority of their family housing, and private sector

⁴ Military Officers Association of America, “Coalition Seeks Answers from DHA on Health Concerns in Military Housing,” Amanda Dolasinski, January 22, 2019, <http://www.moaa.org/Content/Publications-and-Media/News-Articles/2019-News-Articles/Coalition-Seeks-Answers-from-DHA-on-Health-Concerns-in-Military-Housing.aspx>

⁵ USMC Life, “U.S. military families still living in absolutely deplorable conditions,” November 2, 2018, <https://www.usmclife.com/2018/11/u-s-military-families-still-living-in-absolutely-deplorable-conditions>

⁶ Department of Defense, “The Private Financing of Military Housing,” Page 4, <https://archive.org/details/ThePrivateFinancingofMilitaryHousing/page/n3>

⁷ Congressional Research Service, “Military Housing Privatization Initiative: Background and Issues,” Daniel H. Else, July 2, 2001, Page 4, https://digital.library.unt.edu/ark:/67531/metacrs9280/m1/1/high_res_d/RL31039_2001Jul02.pdf

⁸ Government Accountability Office, “Military Housing: Continued Concerns in Implementing the Privatization Initiative,” March 2000, Page 18, <https://www.gao.gov/new.items/ns00071.pdf>

⁹ National Defense Authorization Act for Fiscal Year 1996 (Public Law 104-106, Section 2801)

¹⁰ National Defense Authorization Act for Fiscal Year 2001 (Public Law 106-298, Section 2806)

¹¹ National Defense Authorization Act for Fiscal Year 2005 (Public Law 108-375 107, Section 2805)

¹² Department of Defense Office of the Assistant Secretary of Defense for Sustainment, “Facilities Management – Military Housing Privatization Initiative Frequently Asked Questions,” https://www.acq.osd.mil/eie/fim/Housing/Housing_FAQs.html

¹³ National Defense Authorization Act for Fiscal Year 1996 (Public Law 104-106, Section 2874)

developers now “operate 99 percent of domestic military family housing as well as a limited amount of housing for unaccompanied military personnel.”¹⁴

The Assistant Secretary of Defense for Sustainment retains oversight of this program but it is focused primarily on monitoring financial soundness. Primary oversight of the housing and agreements with the private partners rests with the Military Departments. Each Service is specifically responsible for “evaluating the housing needs of their servicemen; determining which of their installations should be privatized; establishing their program’s policies and procedures; carrying out the private developer solicitation process; and monitoring their projects.”¹⁵

The MHPI’s inventory currently includes approximately 204,000 family housing units and more than 4,700 unaccompanied housing apartment units.¹⁶ The services presently have 81 housing projects covering 156 installations, and most of the agreements for these projects last for 50 years.¹⁷

Ongoing Problems with Privatized Military Housing

The DOD Inspector General has identified problems in the electrical systems, fire protection, and environmental health and safety standards of multiple MHPI housing units as recently as 2015.¹⁸ However, a recent series of reports have renewed questions and concerns about the program by identifying widespread health and safety hazards in servicemembers’ housing.¹⁹ These dangers include lead poisoning, black mold, vermin infestations, and more²⁰ – with multiple reports finding that these problems have caused developmental and other health problems for servicemembers and their families.²¹ In response to these reports, Congress and DOD have taken some action to identify and repair these problems, including the scheduling of Congressional hearings and the initiation of investigations by the DOD’s Inspector General and the Government Accountability Office.²²

¹⁴ Government Accountability Office, “Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment,” March 2018, <https://www.gao.gov/assets/700/690858.pdf>

¹⁵ Department of Defense Office of the Assistant Secretary of Defense for Sustainment, “Facilities Management – Military Housing Privatization Initiative Frequently Asked Questions,” https://www.acq.osd.mil/eie/fim/Housing/Housing_FAQs.html

¹⁶ Presentation from the Department of Defense Office of the Assistant Secretary of Defense for Sustainment, “Military Housing Privatization Initiative (MHPI) -101,” January 2019.

¹⁷ *Ibid.*

¹⁸ Department of Defense Inspector General, “Continental United States Military Housing Inspections - National Capital Region,” August 13, 2015, <https://media.defense.gov/2015/Aug/13/2001714158/-1/-1/1/DODIG-2015-162.pdf>

¹⁹ Reuters, “Ambushed at Home: The Hazardous, Squalid Housing of American Military families,” <https://www.reuters.com/investigates/section/usa-military/>

²⁰ *Ibid.*

²¹ Military Officers Association of America, “News Reports Reveal Lead Paint, Mold, and Bad Air in Military Housing,” Eryn Wagnon, September 5, 2018, <http://www.moaa.org/Content/Publications-and-Media/News-Articles/2018-News-Articles/Advocacy/News-Reports-Reveal-Lead-Paint,-Mold,-and-Bad-Air-In-Military-Housing.aspx>

²² Reuters, “Senate hearings to probe unsafe housing of U.S. military families,” Joshua Schneyer, January 30, 2019, <https://www.reuters.com/article/us-usa-military-congress/senate-hearings-to-probe-unsafe-housing-of-u-s-military-families-idUSKCN1PO37F>

One barrier to resolving existing problems is the lack of transparency in the MHPI requirements and the agreements between developers and the services. In a typical MHPI funding structure, private owners pay for operating expenses, taxes and insurance, and debt payments first – then allocate funds for scheduled maintenance to repair and replace items such as roofs, heating and cooling systems, and infrastructure.²³ After “debt payments are made [and] funds are allocated to accounts that fund scheduled maintenance ... funds are allocated to a series of management incentive fees, such as the property management fee.”²⁴

In 2000, the Government Accountability Office (GAO) raised questions about whether the individual services could understand whether “developers will operate and maintain privatized housing in accordance with contracts, and [if] actual privatization costs and savings will be in line with DOD estimates.”²⁵ Nearly two decades later, GAO again found that DOD and Congress’s current assessment of privatized housing projects was incomplete because “key data on current financial conditions are not mutually comparable” and the military departments “vary in the extent to which they use measures of future sustainment needs and funding to assess project sustainability.”²⁶

This means that developers, once they sign long-term lease agreements, can reduce expenses – and increase their profits – by deferring routine and preventative maintenance actions unilaterally and without approval from the military officials.²⁷ GAO concluded that these actions could reduce “the quality of the housing, reduce tenant satisfaction, and increase expenses over time by reducing the effective life of the items not being maintained.”²⁸

Questions on Administration of MHPI Projects

It would be profoundly troubling if your company, or your subcontractors, were maximizing short-term profit by providing military personnel with subpar housing. To ensure that this is not the case, I am seeking greater transparency on the fees, costs, and earnings your company receives from its military housing lease agreements, and how effectively your company develops and manages base housing for military families. Specifically, I am seeking more information about your military housing lease agreements and your management of housing projects.

The Senate Armed Services Committee will be holding a hearing on this matter on February 13, 2019, which will include testimony from your company and other larger providers on privatized military housing. I ask that you come to this hearing prepared to answer my questions below, and provide me with written answers to all of these questions no later than February 20, 2019.

1. How many military housing project awards have you received from the Department of Defense since the launch of the Military Housing Privatization Initiative program?

²³ Government Accountability Office, “Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment,” March 2018, <https://www.gao.gov/assets/700/690858.pdf>

²⁴ *Ibid*

²⁵ Government Accountability Office, “Military Housing: Continued Concerns in Implementing the Privatization Initiative,” March 2000, <https://www.gao.gov/new.items/ns00071.pdf>

²⁶ Government Accountability Office, “Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment,” March 2018, <https://www.gao.gov/assets/700/690858.pdf>

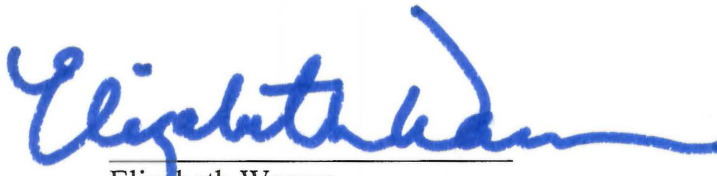
²⁷ *Ibid*

²⁸ Government Accountability Office, “Military Housing: Continued Concerns in Implementing the Privatization Initiative,” March 2000, <https://www.gao.gov/new.items/ns00071.pdf>

- a. How many separate agreements have you signed with the Military Departments for these awards?
 - b. Please provide a list of all active service agreements, and include the following information for each agreement:
 - i. The date it was signed;
 - ii. The installation that it served;
 - iii. The number of housing units that were provided;
 - iv. The year or years that those housing units were first occupied;
 - v. The year or years of any substantial renovations;
 - vi. The total budget associated with the agreements for each of the last ten years;
 - vii. The annual profit you have earned under each of these agreements for each of the last ten years; and
 - viii. The value of the replacement reserve fund or other funds available for capital expenses for each of the last ten years.
 - c. Please provide full copies of all agreements under which your company has received compensation for developing, operating, or providing any service to and for private military housing projects for any of the military services.
2. Please describe your capital need plan for the next five years. Is the balance in the reserve account sufficient to meet the needs of the development?
3. Do any subcontractors, subsidiaries, or other third parties manage or provide any other services at the military housing properties under your control?
 - a. If so, please provide a list of all of these entities, a summary of the services they provide, and the locations where they provide these services.
 - b. Please provide copies of all agreements and contracts between you and these property managers or other service providers.
 - c. Are any of these subcontractors either subsidiaries or otherwise financially related to your company? Do you share key officers or Board members with any of these subcontractors?
4. What controls are in place under your contracts to monitor and oversee your performance?
 - a. Does the DOD, or any of the Military Departments with whom you have agreements, regularly monitor and assess your performance and adherence to these agreements? If so, how?
 - i. How frequently are your properties inspected by DOD or military service personnel, or by any third-party inspector acting on their behalf?

- ii. Please provide a list of the results of all such inspections of all of your MHPI facilities since January 1, 2008, including any deficiencies identified and a description of how these deficiencies were remedied.
 - iii. Are any of your properties subject to inspection by any other federal authority, or by any state or local authority? If so, please provide a list of any inspections and the results of such inspections by these officials.
 - b. Under your existing lease agreements, is your company subject to specific financial or other penalties for violating the terms of your agreements with the military departments?
 - c. Please provide a list of any time your company has been penalized or fined for violating your agreement(s) with the military departments.
5. How do you address needed repairs or work order requests made by residents?
- a. Do you have assigned maintenance staff available to make repairs and/or outside contractors?
 - b. Do you utilize work order logs to track maintenance requests and the completion of work?
 - c. If so, please provide work logs for the last 12 months.
6. Do you have a complaint hotline or other process in place for servicemembers who are living in your housing facilities to contact you with problems?
- a. If so, what is the process for submitting complaints? Can complaints be submitted anonymously?
 - b. Please provide a list of all complaints (without personal identifying information) since January 1, 2008 at all DOD installations you operate, and a description of how these complaints were resolved.
7. How much revenue did your company generate from developing and operating private military housing in 2018? In the past 15 years? Please provide annual revenues for each facility you operate for each year.
8. Are the profits you receive from private military projects set in or otherwise outlined in your agreements with the Military Departments? If so, how are these profits set?

Sincerely,



Elizabeth Warren
United States Senator

cc.

The Honorable Robert H. McMahon, Assistant Secretary of Defense for Sustainment

The Honorable Alex A. Beehler, Assistant Secretary of the Army for Installations, Energy, and Environment

The Honorable Phyllis L. Bayer, Assistant Secretary of the Navy for Energy, Installations, and Environment

The Honorable John W. Henderson, Assistant Secretary of the Air Force for Installations, Environment, and Energy