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STATEMENT OF

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**BEFORE THE SUBCOMMITTEE ON
MILITARY QUALITY OF LIFE AND VETERANS AFFAIRS
OF THE HOUSE APPROPRIATIONS COMMITTEE**

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INTRODUCTION

Chairman Edwards, Mr. Wamp, and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the housing initiatives of the Department of Defense (DoD). I want to express the Department's appreciation for the privatization authorities which have enabled the Department to provide higher quality housing by making use of a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers than traditional military construction methods.

Improving the quality of life of military personnel and their families is a priority for the Department and military housing privatization is a key enabler to providing more housing options for our military personnel.

Improving Quality of Life

Currently, consistent with our long standing policy to rely on local community housing, approximately 63 percent of military families reside in private sector housing off base. Where local community housing is insufficient, another 26 percent now occupy privatized housing constructed under the Military Housing Privatization authorities. Only eight percent now reside in government-owned housing, with another three percent in leased housing, primarily overseas. Tenant satisfaction for privatized family housing is high, particularly for revitalized and newly constructed housing. The degree of satisfaction service personnel experience in privatized housing units is a critical indicator of overall program success and, since the Department provides Basic Allowance for Housing (BAH) at all privatized bases, a military family's decision to live in privatized housing is a significant measure of satisfaction. The occupancy rate of nearly 90 percent program-wide demonstrates the overall success of the program in

providing quality, affordable housing. Additionally, the Services regularly survey occupants and the results show a steady improvement in member satisfaction after housing is privatized.

A number of installations face changes and challenges as military family housing requirements expand and contract due to Base Realignment and Closure (BRAC) restructuring, global re-posturing, joint basing, or Grow the Force requirements. While some installations may find they have a surplus of housing as a result of these changes, others may experience a deficit. However ensuring that our service members and their families have access to safe and affordable housing will remain the primary goal in all cases.

The Department has used privatization to obtain maximum benefits from its funding for housing and rapidly improve the quality of life for our Service members. As existing inventories of family housing are revitalized installation commanders and servicemembers are increasingly appreciative of privatization efforts which remains the preferred method to address the Department's housing needs.

Family Housing Privatization

The Military Housing Privatization Initiative (MHPI) was established to help the Department meet its goals to eliminate all inadequate military family housing by 2010 (subsequently advanced to 2007) and to reduce the growing deficit of military family housing and to improve the quality of life for our servicemembers and their families. The program encourages high quality construction, sustainment, and renovation of military family housing by leveraging private sector capital and expertise. The methodology includes: diligent scrutiny of selection of developers, sound legal documents, strong oversight and monitoring procedures, and inclusion of protections for the government in terms and conditions of agreements.

Privatization has allowed rapid demolition, replacement, or renovation of units and for disposal of inadequate units no longer needed. Privatization has also allowed the Department to leverage better business practices as well as private capital and expertise to improve the management of military installations.

Under the Military Housing Privatization Initiative (MHPI), the Department has awarded 94 privatization projects, leveraging private sector funding and expertise to address what was a significant housing problem. These privatization projects, in addition to a small number of military construction (MILCON) projects, have allowed the Department to eliminate nearly all inadequate domestic family housing. The remaining inadequate units will be eliminated through Air Force MHPI projects scheduled in FY 2009 and FY 2010.

To date, 28 development entities have participated in one or more projects as owner or general partner since the MHPI program began in Fiscal Year 1996. Nine different developers successfully competed for the Army's 28 projects; 12 different developers successfully competed for the 16 Navy projects; and 14 different developers successfully competed for the 28 Air Force projects. Joint ventures of two or more developers working together successfully competed on 12 projects. Six developers successfully competed on projects for more than one Military Department and three of those developers successfully competed on projects for all three Departments. We have been extremely pleased with the performance of our development partners with only one exception. Besides bringing great expertise to the construction and operation of our housing, our partners are proud to be serving military families and offer many functions to enhance the sense of community on our bases. One partner, American Eagle Communities, won six projects in 2004 but was quickly unable to perform as proposed.

Working through the bondholders, the Services have successfully transferred ownership of those six projects to new partners.

The housing privatization program was created to address the poor condition of DoD-owned housing and the shortage of affordable private housing of adequate quality for military service members and their families. Much attention was paid to newly constructed and renovated houses as the projects developed and approximately 50% of the construction and renovation has been completed. But just as importantly, these projects are structured to sustain themselves for 50 years or more.

Sustainment and Recapitalization

Privatization makes sustainability a reality. In today's environment, when we are challenged to both devote the necessary resources within the Department and Military Services to meet requirements and to stretch available resources. The income streams created for these projects, combined with the expertise of our private partners, promise to ensure new housing is in as good a shape in 2040 as it is today. Housing privatization is not just about building better houses faster – it is also about keeping them in good condition for the long term.

Developers and installation leaders are taking measures to ensure that the MHPI is a successful proposition over the long haul mainly by ensuring that homes are well-maintained and operated over the life of the 50-year deals. Private developers are incentivized to make up-front capital investment to save long term operating costs in a way that is difficult to replicate in the federal budget process which concentrates on only a six year horizon. These housing projects leverage government assets and transfer existing housing and land to the private sector to offset the need for government cash subsidies. Dedicated funding streams from rents support a high quality, responsive maintenance and repair program.

Through privatization, homes are built to private market standards and revenues are captured for future recapitalization. With privatization deal structures and an income stream in place, full revitalization is completed within a ten-year development period.

Economic Climate Change

As would be expected, the stagnation in the housing and overall financial markets has had an impact on the MHPI program. Market forces have led to increased costs and tightening of credit standards. This means that while our 94 existing projects are operating normally, finding financing for new projects presents new challenges. This is not a reflection of distrust in MHPI projects but simply a lack of liquidity in the market as a whole. Financial institutions recognize that PI projects continue to have high occupancy and strong operation and maintenance performance while continuing to execute their renovation and new construction schedules. Our one underperforming partner, American Eagle Communities, was successfully replaced in all six projects where they were involved, while keeping bondholders in place in five of the six projects. We continue to work closely with private markets to ensure that our excellent track record puts us at the head of the line when market liquidity returns.

The \$24 billion of private capital that has been infused into our housing program is ten times more than if we had continued to fund it through the budget process. While this leveraging may be less in the future, we expect to continue to stretch our appropriated dollars. We continue to adapt projects to the changing economic climate. For example, some projects may turn houses over to private sector operation but delay inserting private sector debt until it is more efficiently priced. This will allow the Department to stop the deterioration of the housing stock while waiting to maximize funds available to the income stream.

Post-Award Monitoring

As privatization increases, we are no longer in the business of managing housing inventory, but rather are monitoring projects. The oversight provided by the ODUSD(I&E) emphasizes fiscal/physical oversight and monitoring of awarded projects via a framework known as the Program Evaluation Plan (PEP).

The PEP monitors how well housing privatization is providing quality housing for our families, as well as protecting other government interests such as repayment of loans. Because the primary relationship is between military tenants and private landlords, the Department works hard to limit its involvement to only essential protection of the Department's interests. At every step, responsibility for day-to-day management of the housing is shifted to the private partner; including shifting the requirement to attract member tenants. At the same time our partnership agreements allow the Services to protect our interest in housing our military families.

Since implementation of the PEP eight years ago, the Department has continued to refine its oversight and ensure the quality of information collected is relevant and timely. Detailed, real time monitoring of projects is the responsibility of the Military Services and is implemented at each location in accordance with the management structure for that project. Programmatic data is collected semi-annually to allow headquarters oversight. Based on the PEP evaluations to date, we are confident that the program is meeting expectations and that projects are fiscally and financially sound.

Overseas Housing

In the United States, the Defense Department relies on the private sector to provide quality housing options. Only when the private market demonstrates that it cannot supply

sufficient levels of quality housing, does the Department provide housing to our military families using privatization as its preferred option. In the absence of privatization authority, the Department addresses housing needs overseas through military construction and leasing. One innovative exception is the Army housing initiative in Korea known as the Humphreys Housing Opportunity Project (HHOP). This initiative involves private sector development, financing, design, construction, operations, maintenance, and long-term property management. The program requires no capital construction investment by the Army and housing units will be rented by soldiers through the use of their overseas housing allowance. The HHOP is expected to ultimately provide 2,400 new family housing units at the US Army Garrison Humphreys.

Unaccompanied Personnel Housing

With over 600,000 beds, the Department manages more Unaccompanied Personnel Housing (UPH) inventory than the world's largest hotel chain. The Administration is committed to improving housing for our unaccompanied Service members and continues to encourage the sustainment and modernization of UPH around the world to improve privacy and provide greater amenities. To that end, the Department conducted a worldwide barracks survey to document the extent barracks meet established Department standards; the reasons why facilities may fail to meet these standards; and an estimate for the funding required. We are currently evaluating the impact of the recently enacted American Recovery and Reinvestment Act of 2009, which provides supplemental barracks funding. Your continued support of our unaccompanied personnel housing program is greatly appreciated.

The Military Housing Privatization Initiative (MHPI) includes authority to privatize unaccompanied housing similar to that of the privatization of family housing. In FY 2007, the Army added bachelor officer quarters and senior enlisted bachelor quarters to its existing

privatization projects at Fort Bragg, North Carolina; Fort Stewart, Georgia; Fort Drum, New York; Fort Bliss, Texas/White Sands Missile Range, New Mexico, and Fort Irwin, California.

At three sites, the Navy has executed successful unaccompanied privatization projects using a pilot authority that authorized a flexible payment of a partial housing allowance to unaccompanied residents. These pilot projects have so successfully improved the quality of life of unaccompanied personnel that it is now time to make them permanent and expand them to the other Services.

The Department appreciates the support from the Congress in efforts to extend the principles of privatization to our critical bachelor housing needs. We envision that privatization will prove to be as successful in accelerating improvements in living conditions for our single Service members as it has been for family housing.

CONCLUSION

The housing privatization program is crucial to a decent quality of life for our Service members. The Department has aggressively used privatization to advance the goal of eliminating inadequate housing and obtaining maximum benefit from housing investments. The Services continue to evaluate installation housing requirements and the opportunities to meet additional housing needs through privatization continue to expand.

In closing Mr. Chairman, I again express the Department's appreciation for the strong support of military housing programs. I look forward to working with you Mr. Edwards, and all members of this committee as we continue to improve the quality of life of military personnel.