



## Testimony

Before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies, Committee on Appropriations, House of Representatives

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# MILITARY HOUSING

## DOD Has Taken Key Steps to Strengthen Oversight, but More Action Is Needed in Some Areas

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# GAO@100 Highlights

Highlights of [GAO-21-389T](#), a testimony before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

Congress enacted the Military Housing Privatization Initiative (MHPI) in 1996 to improve the quality of housing for servicemembers. DOD is responsible for general oversight of privatized housing projects. Private-sector developers are responsible for the ownership, construction, renovation, maintenance, and repair of about 99 percent of military housing in the United States. GAO has conducted a series of reviews of MHPI, following reports of hazards (such as mold) in homes, questions about DOD's process to determine the basic allowance for housing rates, which is a key revenue source for privatized housing, and concerns about how DOD ensures appropriate property insurance for privatized housing projects impacted by severe weather.

This statement summarizes 1) steps DOD has taken to strengthen oversight and management of its privatized housing program, and work remaining; 2) actions needed to improve DOD's BAH process; and 3) actions needed to enhance DOD's oversight of privatized housing property insurance. The statement summarizes two of GAO's prior reports, and a report to be issued, related to privatized housing. For this statement, GAO reviewed prior reports, collected information on recommendation implementation, and interviewed DOD officials.

## What GAO Recommends

In prior reports, GAO recommended that DOD improve oversight of housing conditions; review its process for determining basic allowance for housing rates; and that the military departments update their housing insurance review oversight procedures.

View [GAO-21-389T](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or [fielde1@gao.gov](mailto:fielde1@gao.gov).

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## MILITARY HOUSING

### DOD Has Taken Key Steps to Strengthen Oversight, but More Action Is Needed in Some Areas

## What GAO Found

In 1996 Congress provided DOD with authorities enabling it to obtain private-sector financing and management to repair, renovate, construct, and operate military housing. DOD has since privatized about 99 percent of its domestic housing. The Department of Defense (DOD) has made progress in addressing weaknesses in its privatized housing program, and GAO has identified additional opportunities to strengthen the program. GAO reported in March 2020 on DOD's oversight and its role in the management of privatized housing. Specifically, GAO found that 1) the military departments conducted some oversight of the physical condition of privatized housing, but some efforts were limited in scope; 2) the military departments used performance metrics to monitor private developers, but the metrics did not provide meaningful information on the condition of housing; 3) the military departments and private developers collected maintenance data on homes, but these data were not captured reliably or consistently, and 4) DOD provided reports to Congress on the status of privatized housing, but some data in these reports were unreliable, leading to misleading results. GAO made 12 recommendations, including that DOD take steps to improve housing condition oversight, performance indicators, maintenance data, and resident satisfaction reporting. DOD generally concurred with the recommendations. As of February 2021, DOD fully implemented 5 recommendations and partially implemented 7 recommendations.

DOD should also take action to improve the process for setting basic allowance for housing (BAH)—a key source of revenue for privatized housing projects. In January 2021, GAO reported on DOD's process to determine BAH. GAO found that DOD has not always collected rental data on the minimum number of rental units needed to estimate the total housing cost for certain locations and housing types. Until DOD develops ways to increase its sample size, it will risk providing housing cost compensation that does not accurately represent the cost of suitable housing for servicemembers. GAO recommended that DOD review its methodology to increase sample sizes.

GAO has also determined, in a report to be issued this week, that DOD should improve oversight of privatized housing property insurance and natural disaster recovery. GAO assessed the extent to which the military departments and the Office of the Secretary of Defense exercise oversight of their projects' insurance coverage. GAO found that the military departments have exercised insufficient oversight, and that the Office of the Secretary of Defense has not regularly monitored the military departments' implementation of insurance requirements. Without establishing procedures for timely and documented reviews, the military departments cannot be assured that the projects are complying with insurance requirements and assuming a proper balance of risk and cost. The draft of this report, which GAO provided to DOD for official comment, included 9 recommendations, 2 of which DOD addressed in January 2021 by issuing policy updates. The final report's 7 remaining recommendations, including that the military departments update their respective insurance review oversight procedures, will help strengthen DOD's oversight of privatized housing, once implemented. DOD concurred with all of the recommendations.

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Chairwoman Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee:

Thank you for the opportunity to provide an update on the Department of Defense's (DOD) efforts to improve its privatized housing program. In 1996, Congress enacted the Military Housing Privatization Initiative (hereafter, privatized military housing program) in response to DOD concerns about the effect of inadequate and poor quality housing on servicemembers and their families.<sup>1</sup> Since the mid-1990s, DOD has worked with private-sector developers and property management companies (hereafter referred to as private developers) to construct, renovate, maintain, and repair housing at U.S. military installations through partnerships known as privatized housing projects.<sup>2</sup> These private developers have assumed primary responsibility for military family housing in the United States, and are currently responsible for the construction, renovation, maintenance, and repair of about 99 percent of domestic military family housing in the continental United States, Alaska, and Hawaii. Over the last few years, reports of the presence of lead-based paint and other hazards, such as mold and pest and rodent infestations, as well as damage to privatized housing from natural disasters, have raised questions about DOD's management and oversight of privatized housing. These concerns, among others, prompted Congress to direct GAO to examine the privatized military housing program.

My testimony today provides information on the status of DOD's efforts to improve its privatized housing program. Specifically, I will summarize (1) steps DOD has taken to strengthen oversight and management of its privatized housing program, in response to our recommendations, and what additional actions are needed, (2) actions needed to improve DOD's basic allowance for housing (BAH) process, and (3) actions needed to enhance DOD's oversight of privatized housing property insurance and natural disaster recovery.

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1996, Pub. L. No. 104-106, §§ 2801-2802 (1996), codified as amended at 10 U.S.C. §§ 2871-2894a.

<sup>2</sup>Privatized housing projects are run by a private-sector partner. For the purposes of this report, we refer to this partner as a developer or developers. Developers are alternately referred to by the military departments as project owners, private partners, or managing members. Developers may also be referred to as a lessor of a privatized housing project in their capacity as landlord to the servicemembers who rent the privatized housing.

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This statement is based on our recent reports on the privatized housing military program, as well as observations from a report we will issue this week.<sup>3</sup> These reports examined a range of issues related to DOD's privatized housing initiative, including DOD's oversight and its role in the management of privatized housing, DOD's process to determine BAH rates, which are a key source of revenue for privatized housing, and the military departments' and the Office of the Secretary of Defense's (OSD) oversight of privatized housing projects' property insurance coverage.<sup>4</sup>

To perform our work, we reviewed relevant DOD guidance and other documents, such as ground leases for select privatized housing projects; analyzed key data, such as data on maintenance records and tenant satisfaction; and interviewed cognizant OSD and military department officials involved in the privatized housing initiative. We also obtained updates from DOD officials, such as information on the status of their efforts to implement recommendations from our prior reports. These updates are current, as of February 2021. The reports cited throughout this statement contain more details on the scope and methodology of our audit work.

We performed the work on which this statement is based from November 2018 through February 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>3</sup>See GAO, *Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing*, [GAO-20-281](#) (Washington, D.C.: Mar. 26, 2020); GAO, *Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects*, [GAO-21-137](#) (Washington, D.C.: Jan. 25, 2021). Our draft report to be issued on February 18, 2020, GAO, *Military Housing Privatization: DOD Should Improve Oversight of Property Insurance and Natural Disaster Recovery*, [GAO-21-184SU](#) (Washington, D.C.) has been designated CONTROLLED UNCLASSIFIED INFORMATION due to the sensitive nature of the information it contains. The discussion of this report in this statement is limited to information that is cleared for public release.

<sup>4</sup>A list of related GAO products is provided in Related GAO Products at the end of this statement.

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## Background

### DOD Military Housing

DOD's policy is to ensure that eligible personnel and their families have access to affordable, quality housing facilities and services consistent with grade and dependent status, and that the housing generally reflects contemporary community living standards.<sup>5</sup> From the inception of the privatized military housing program, the military departments were provided with various authorities to obtain private-sector financing and management to repair, renovate, construct, and operate military housing in the United States and its territories. Through these authorities, the military departments have entered into a series of agreements with private developers to provide housing to servicemembers and their families.

The military departments have flexibility in how they structure their privatized housing projects, but typically the military departments leased land to private developers for 50-year terms and conveyed existing housing located on the leased land to the developer for the duration of the lease. The private developers then became responsible for renovating and constructing new housing and for the daily management of these housing units. As of June 2020, 14 private developers were responsible for 79 privatized military family housing projects—34 for the Army, 32 for the Air Force, and 13 for the Navy and the Marine Corps.<sup>6</sup>

Each privatized housing project is a separate and distinct entity governed by a series of legal agreements that are specific to that project, hereinafter referred to as business agreements.<sup>7</sup> These business agreements include, among other things, an operating agreement, a property management agreement, and an agreement that describes the management of funds in the projects, including the order in which funds are allocated within the project. The business agreements also include requirements for the private developers to obtain insurance coverages for the project, including property insurance coverage. The property

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<sup>5</sup>Department of Defense (DOD) Instruction 4165.63, *DOD Housing* (July 21, 2008) (incorporating Change 2, Aug. 31, 2018).

<sup>6</sup>Additionally, 5 private developers were responsible for 7 unaccompanied housing projects—5 for the Army and 2 for the Navy, while 1 private developer was responsible for 1 privatized lodging project for the Army. We are separately reviewing the Army's privatized lodging program and expect to report on it in spring 2021.

<sup>7</sup>Business agreements are alternately referred to as transaction documents or closing documents.

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insurance requirements vary by project, but some are common across projects.

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## Basic Allowance for Housing

BAH is a key revenue source for privatized housing projects. The BAH is designed to provide fair housing allowances to servicemembers to help cover a portion of the monthly costs of rent and utilities. In an effort to determine appropriate BAH rates, DOD collects data on rental properties that are considered suitable and adequate for servicemembers of the designated rank. BAH is paid to servicemembers regardless of whether they live in civilian or privatized housing. The vast majority of servicemembers—about two-thirds—rely on the civilian housing market, while the remaining servicemembers live in government housing or privatized housing. Starting in 2015, DOD reduced BAH rates so that servicemembers share a portion of housing costs. In 2018-2020, Congress required DOD to make payments to privatized housing projects to help offset the BAH reduction.

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## Roles and Responsibilities

The Assistant Secretary of Defense for Sustainment, as DOD's Chief Housing Officer, is responsible for the oversight of privatized housing units, including the creation and standardization of housing policies and processes.<sup>8</sup> According to DOD officials, the Deputy Assistant Secretary of Defense for Housing, under the authority, direction, and control of the Assistant Secretary of Defense for Sustainment, is responsible for all matters related to the privatized housing program and is the program manager for all DOD housing, whether DOD-owned, DOD-leased, or privatized.<sup>9</sup> In this capacity, the Deputy Assistant Secretary is to provide both guidance and general procedures related to housing privatization, as well as required annual reports to Congress on privatized housing projects.<sup>10</sup> However, it is the responsibility of the military departments to execute and oversee the privatized housing projects, including conducting financial management and monitoring their portfolio of projects. Each

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<sup>8</sup>10 U.S.C. § 2890a.

<sup>9</sup>Almost all DOD family housing in the United States has been privatized; however, DOD is responsible for overseas family housing and most housing for unaccompanied military personnel in the United States.

<sup>10</sup>Section 2884(c) of Title 10 of the United States Code requires the Secretary of Defense to report semiannually an evaluation of the status of oversight and accountability measures for housing privatization projects, including, among other things, information about financial health and performance and the backlog of maintenance and repair. According to DOD officials, although the statute requires semiannual reporting, due to the effort involved, DOD aims to produce one report for each fiscal year, rather than two.

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military department has issued guidance that outlines its responsibilities for privatized housing, such as which offices are responsible for overseeing privatized housing projects.<sup>11</sup>

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## DOD Has Taken Key Steps to Improve the Privatized Housing Program, but Should Strengthen Oversight and Clarify Its Management Role

DOD has taken key steps to improve oversight of its privatized housing program, but more actions are needed to clarify its management role and address recent GAO recommendations. In March 2020, we made 12 recommendations for DOD to strengthen its oversight and clarify its role in managing privatized housing.<sup>12</sup> DOD generally concurred with the recommendations and has taken steps to implement them. As of February 2021, 5 recommendations have been fully implemented and 7 have been partially implemented. See appendix 1 for a summary of the status of these recommendations.

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## DOD Has Taken Steps, but Some Limitations Remain in Key Areas of Oversight

**DOD implemented our recommendation to update guidance on oversight.** Military departments have responsibility to conduct oversight of the condition of privatized housing. That oversight generally consists of reviewing a sample of work order requests, wherein a resident may contact a property manager to, for example, request a repair. That oversight also generally consists of visually inspecting housing during change-of-occupancy, and conducting other point-in-time assessments. However, in March 2020, GAO reported that these efforts were limited in scope. For example, annual interior walk-throughs were limited to just a few homes at some installations, which may not comprehensively reflect the condition of the housing units at those installations.

We recommended that DOD collaborate with the military departments to update guidance for the oversight of privatized military housing, and to include oversight objectives for each service to monitor the physical condition of privatized homes over the remaining duration of the ground leases. DOD has implemented this recommendation. During the course of our review, which we completed in March 2020, DOD was already taking actions to make improvements. Specifically, OSD issued guidance in

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<sup>11</sup>Air Force Instruction 32-6000, *Housing Management* (Mar. 18, 2020); Department of the Army, *Portfolio and Asset Management Handbook: Residential Communities Initiative*, ver. 6.0 (Dec. 26, 2019); Commander, Navy Installations Command Notice 11101, *Navy Privatized Family Housing Oversight* (Feb. 4, 2020); and Commander, Marine Corps Installations Command Policy Letter 1-20, *Marine Corps Privatized Family Housing Oversight* (June 16, 2020).

<sup>12</sup>[GAO-20-281](#).

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November 2019, requiring the military departments to monitor work order completion. Further, in January 2021, OSD issued guidance requiring quarterly program reviews, which are intended to establish oversight objectives for the military departments to monitor the physical condition of privatized military housing.<sup>13</sup>

**Additional actions by the military departments are needed to improve performance metrics.** In March 2020, we reported that OSD had issued guidance to the military departments to ensure consistency in the framework used to measure project performance. However, we found that the specific indicators used to determine if the metrics were being met may not have accurately reflected performance related to the condition of the home. For example, a common indicator was how quickly the private developer responded to a work order, not whether the underlying issue was actually addressed.

We recommended that each military department, in collaboration with its respective housing developers, review indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes. DOD concurred with these recommendations, and has taken some steps toward implementation. For example:

- During the course of our review that completed in March 2020, DOD was taking actions to make improvements. Specifically, in December 2019, the Army issued guidance that outlines performance metrics to measure the health of each privatized home through inspection, assessment, satisfaction, and feedback.<sup>14</sup>
- As of February 2021, the Air Force has worked with all of its private developers to deploy a survey tool to independently measure resident satisfaction with projects' work order performance. As such, 62 of 63 bases have agreed to implement third-party survey tools which the Air Force can access directly; however, the remaining base is not expected to agree to this change. Additionally, the Air Force has successfully approved restructured performance incentive fee structures with 2 of its 5 private partners, with plans to finalize 2 more

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<sup>13</sup>Assistant Secretary of Defense for Sustainment Memorandum, *Military Housing Privatization Initiative—Approval and Notifications Policy* (Jan. 15, 2021).

<sup>14</sup>Department of the Army, *Portfolio and Asset Management Handbook: Residential Communities Initiative*, ver. 6.0 (Dec. 26, 2019).



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in February 2021. At this time, there is no anticipated date for the finalization of the fifth agreement.

While these are positive steps, OSD and the military departments have not provided documentation indicating that the military departments have fully implemented all of these recommendations, and OSD should maintain continued emphasis on ensuring that the military departments provide indicators that accurately reflect the condition of privatized housing.

**DOD has taken actions to improve maintenance data on homes.** We reported in March 2020 that DOD was expanding its use of work order data to monitor and track the condition of privatized housing. However, based on GAO's analysis of data provided by all 14 private developers, these data could not reliably be used for ongoing monitoring of privatized housing, because of data anomalies and inconsistent business practices in how these data were collected.

We recommended that DOD collaborate with the military departments to establish minimum data requirements and consistent terminology and practices for work order data collection for comparability across installations and projects and to track trends over time. DOD has implemented this recommendation. OSD issued guidance in January 2021, directing the military departments to conduct quarterly program reviews of all privatized housing.<sup>15</sup> The guidance includes instructions and templates to guide the military departments' review efforts and includes steps to establish minimum data requirements on which the military departments are to report. For example, each military department is required to prepare a slide presentation capturing, among other things, data on the number of projects, installations, and partners; existing inventory; occupancy; work order satisfaction; and net operating income. Each military department was provided with a template in order to ensure consistent information is captured and available to track trends over time.

We also recommended that DOD require the military departments to establish a process to validate data collected by the privatized housing developers to better ensure the reliability and validity of work order data and to allow for more effective use of these data for monitoring and

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<sup>15</sup>Assistant Secretary of Defense for Sustainment Memorandum, *Military Housing Privatization Initiative—Approval and Notifications Policy* (Jan. 15, 2021)

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tracking purposes. OSD expects to implement this recommendation in May 2021.

**DOD has taken steps to improve data collection, but continued focus is needed to improve data reported to Congress.** We reported in March 2020 that DOD had provided periodic reports to Congress on the status of privatized housing, but reported results on resident satisfaction were unreliable due to variances in the data provided to OSD by the military departments and in how OSD had calculated and reported these data. Use of these unreliable data led to misleading results reported to congress.

We recommended that DOD develop a process for collecting and calculating resident satisfaction data from the military departments to ensure that the data are compiled and calculated in a standardized and accurate way. DOD has taken steps to implement this recommendation. In November 2020, the Assistant Secretary of Defense for Sustainment, as the Chief Housing Officer, issued guidance requiring that the DOD Tenant Satisfaction Survey use standardized questions across all military departments and all housing types, effective in fiscal year 2021. The guidance further directs the military departments to jointly review the survey questions annually for relevance to oversight and management of privatized housing beginning in Fiscal Year 2022. DOD has frequently reported high customer resident satisfaction rates as a key indicator of the success of the privatization initiative. By improving the process used to collect and calculate the data used for determining these rates and addressing limitations in its reports to Congress, DOD will improve the usefulness of these reports as an indicator of program health.

We also recommended that DOD provide additional explanation of the data collected and reported in future reports to Congress, such as information on the limitations of available survey data, how resident satisfaction was calculated, and reasons for any missing data, among other things. OSD completed its annual privatized housing program report covering fiscal year 2018 in September 2020, and provided additional explanations on data that were collected and reported, to include details on how resident satisfaction data were calculated. DOD officials noted that additional information would be provided in the annual privatized housing program report covering fiscal year 2019, but as of February 2021, that report had not yet been completed. We will continue to monitor the status of DOD's efforts to fully implement this recommendation.

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## DOD Faces Challenges Implementing Improvement Initiatives, but Progress Is Being Made in Implementing a Resident Bill of Rights

We reported in March 2020 that OSD, the military departments, and the private developers had identified and begun collaborating on a series of initiatives aimed at improving residents' experience with privatized housing. In the National Defense Authorization Act for Fiscal Year 2020, Congress had also established several requirements aimed at addressing military privatization housing reform.<sup>16</sup> These initiatives included:

- developing a resident bill of rights and resident responsibility document;
- establishing a common lease framework for all privatized housing program projects (i.e., tenant leases);
- implementing a common (enterprise) dispute adjudication process and resident advocate position;
- reviewing privatized housing program resident satisfaction metrics and data collection process;
- standardizing performance incentive fee ranges;
- revitalizing the housing workforce (hiring of additional staff) and establishing customer care agents; and
- making resident work order status and progress visible and transparent to staff and residents.

We noted, however, that DOD and private developer representatives had cited several challenges that could affect their ability to implement these initiatives aimed at improving the privatized housing program. Such challenges included the timeliness with which DOD was able to implement the initiatives; a lack of resources—specifically, military department staff with targeted expertise—needed for implementation; and concerns that implementation could have unintended negative impacts on the financial viability of the privatized housing projects. For example, OSD officials had told us that they had concerns that some initiatives—such as increased frequency of change-of-occupancy inspections—could result in homes remaining vacant longer than planned and therefore not collecting rent, which could unintentionally impact a project's cash flow.

Nonetheless, DOD has made progress in implementing the resident bill of rights aimed at providing clarity to residents on their rights and

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<sup>16</sup>Pub. L. No. 116-92 (Dec. 20, 2019). In addition to the provisions discussed in our March 2020 report, the Fiscal Year 2020 NDAA included provisions related to other elements of the Military Housing Privatization Initiative, such as the reporting of medical issues, use of nondisclosure agreements, and others.

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responsibilities while living in privatized military housing. As of January 2021, 15 of the 18 rights established in the National Defense Authorization Act for Fiscal Year 2020 have been included in the resident bill of rights. However, one of these rights—the common lease—has not been fully adopted due to disagreement from some of the private developers.<sup>17</sup> Regardless, according to documentation from the Assistant Secretary of Defense for Sustainment, DOD expects that 11 of the 14 private developers will use a common lease template by July 2021.

The remaining 3 rights that are still not fully available to residents are the dispute resolution process, rent segregation (wherein a rent payment is withheld pending resolution of a dispute), and the provision of a 7-year maintenance history to tenants.<sup>18</sup> These rights have not been fully adopted because DOD is unable to unilaterally implement them without private developer agreement. DOD's Chief Housing Officer provided guidance in December 2020 to the military departments that they seek agreement from the program's private developers to provide identified dispute resolution processes to include rent segregation, but the dispute resolution process remains outstanding. By contrast, implementation of the 7-year maintenance history right is underway and is expected to be implemented by 9 of the 14 private developers by June 2021. Additionally, in October 2020, the Army began a pilot program testing its system of providing 7 years of a unit's maintenance history to tenants. According to OSD officials, as of February 2021, OSD has ensured that, for any new project or project that renews any aspect of its ground lease, all 18 of the resident rights will be guaranteed.

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<sup>17</sup>The goal of the common lease is to provide residents of privatized housing with similar terms in their leases, regardless of where they are living and which private developer owns their housing unit. A common dispute resolution process is expected to ensure the prompt and fair resolution of disputes that arise between landlords providing housing units and tenants residing in housing units concerning maintenance and repairs, damage claims, rental payments, and move-out charges, among other issues.

<sup>18</sup>Rent segregation refers to a process in which residents have their basic allowance housing payments segregated and held in escrow, with approval of a designated commander, and not used by the property owner, property manager, or landlord pending completion of the dispute resolution process.

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## DOD Needs to Take Actions to Improve Its Process for Setting Basic Allowance for Housing for Servicemembers and Calculating Payments for Privatized Housing Projects

In our January 2021 report, we identified actions that DOD should take to improve the process for setting BAH—a key source of revenue for privatized housing projects.<sup>19</sup> We also identified a matter for congressional consideration to revise statutory language to ensure payments to privatized housing projects are consistent with BAH reductions. Specifically, we found that:

- DOD has developed—and to a great extent has followed—its year-long, data-intensive process that produces BAH rates for 301 military housing areas. However, DOD has not always collected rental data on the minimum number of rental units needed to estimate the total housing cost for certain locations and housing types. Specifically, GAO analysis found that, for data collected in 2019 for the 2020 BAH rates, 44 percent (788 of 1,806) of locations and housing types had fewer than the minimum sample-size target. Until DOD develops ways to increase its sample size, it will risk providing housing cost compensation that does not accurately represent the cost of suitable housing for servicemembers.
- DOD has also conducted several reviews of its BAH process for quality assurance, and had its BAH contractor perform ad-hoc studies—sometimes several in a year—to review various topics related to the BAH program. However, we found that DOD has not developed a process for DOD to use quality information to consistently monitor key data used in the BAH process. For example, we found that DOD did not consistently monitor or rely on information from external data sources, such as external data on rental housing costs, to assess the appropriateness of BAH rates. Doing so would help ensure that BAH rates are appropriate for servicemembers' rank and that rates accurately reflect the current costs of housing in the private sector.
- DOD followed statutory requirements when it reduced BAH rates and made payments to privatized housing projects to offset the negative financial effects of BAH rate reductions. Specifically, as required by law, DOD used the national average BAH to calculate the BAH reduction amount and the local BAH to calculate the congressionally mandated payments. However, this difference in calculations resulted in unintended distortions, as some privatized housing projects received congressionally mandated payments that more than offset the BAH reduction in 2019, while other projects received payments that did not fully offset their BAH reductions. Moreover, we found

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<sup>19</sup>[GAO-21-137](#).

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some large variances between the congressionally mandated payment amounts and the BAH reduction estimate. For example, six privatized housing projects' payments were more than \$1 million greater than the estimated amount by which BAH rates were reduced. Conversely, the payments to six other privatized housing projects were more than \$1 million lower than the estimated amount by which BAH rates were reduced. Unless Congress takes steps to ensure that payments to privatized housing projects are calculated using the national BAH rate, some privatized housing projects will continue to receive payments that are less than intended, thereby potentially hindering those projects' ability to maintain quality housing for servicemembers. We therefore recommended that Congress consider revising the calculation for payments for privatized housing projects so that the payments are based on national average rates, consistent with the calculation for the BAH rate reduction.

In addition to the matter for congressional consideration to revise the statutory language on these payments, GAO made three recommendations, including that DOD review its sampling methodology, review and update its BAH guidance, and develop a process for DOD to use quality information to consistently monitor key data used in the BAH process. DOD partially concurred with the first recommendation and concurred with the latter 2 recommendations. We will monitor DOD's actions to implement these recommendations.

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## DOD Should Improve Oversight of Privatized Housing Property Insurance and Natural Disaster Recovery

Most recently, we conducted a review of how the insurance carried by three selected privatized housing projects affected their financial viability after natural disasters, and we assessed the extent to which the military departments and OSD exercised oversight of projects' property insurance coverage.<sup>20</sup> Recent natural disasters, such as Hurricane Michael, which caused extensive damage at Tyndall Air Force Base in Florida, have demonstrated that such events can lead to significant financial losses and create financial challenges for privatized housing projects.

We selected and reviewed three privatized housing projects that experienced natural disasters from December 2016 to December 2019: (1) Air Education and Training Command Group I (various locations across the southern United States, including Tyndall Air Force Base); (2)

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<sup>20</sup>GAO-21-184SU. This report is expected to be issued February 18, 2021. Information in this draft report has been designated CONTROLLED UNCLASSIFIED INFORMATION due to the sensitive nature of the information it contains. The discussion of this report in this statement is limited to information that is cleared for public release.

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Atlantic Marine Corps Communities (various locations along the East Coast, including Marine Corps Base Camp Lejeune); and (3) Fort Carson (Colorado). We found that the property insurance carried by these three DOD privatized housing projects covered most of the natural disaster losses from December 2016 to December 2019. However, the extent of the losses at two installations we reviewed created financial challenges for those installations' respective privatized housing projects.

We also found that the military departments have exercised insufficient oversight of their privatized housing projects' property insurance coverage, and OSD has not regularly monitored the military departments' implementation of insurance requirements. Specifically, we found that:

- The military departments have conducted some reviews of private developers' property insurance for selected projects, but have not resolved potential issues before renewal of the policies. Further, the Navy has not documented and the Army has not regularly conducted reviews. Without establishing procedures for timely and documented reviews, the military departments cannot be assured that the projects are complying with insurance requirements and assuming a proper balance of risk and cost.
- The military departments also agreed in principle for their projects to share the costs of coverage provided by one private developer's property insurance policy, but twice failed to formalize a cost-sharing agreement before the policy renewed. Without such an agreement before the policy's effective date, the projects cannot be assured of timely access to funding to support repair work at damaged installations.
- As of November 2020, OSD had not regularly monitored the military departments' implementation of insurance requirements, including the results of their insurance reviews or development of cost-sharing agreements.

Additionally, we found that each of the military departments took actions involving the privatized housing projects' funding structures—to include approving the movement of funds among accounts—to support their respective projects' natural disaster recovery. However, we found shortcomings in the Army's and the Air Force's efforts in this regard. For example, the Army provided verbal approval for moving project funds within one of our selected privatized housing projects, but this verbal approval did not align with the Army's policy, which required written approval.

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DOD has already taken actions to address some of the issues we identified in our draft report. For example, while our draft report was with DOD for official comment, OSD issued a new policy memorandum, effective January 2021, requiring regular insurance reporting from each of the military departments, as our draft report had recommended.<sup>21</sup> Additionally, the Department of the Army issued new guidance in January 2021, as our draft report also had recommended, to allow verbal approval of urgent requests—related to the movement of funds among privatized housing projects’ accounts—for life, health, and safety requirements.<sup>22</sup> These actions are a positive step toward improving DOD’s oversight and management of DOD privatized housing projects. We look forward to DOD implementing the report’s remaining 7 recommendations, including that the military departments update their insurance review oversight procedures. DOD concurred with all of the recommendations.

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In summary, while the privatization of military housing has resulted in private developers assuming primary responsibility for military housing, DOD maintains responsibility for overseeing privatized housing and ensuring that eligible personnel and their families have access to affordable, quality housing facilities and services. Because the military departments typically lease land to private developers for 50-year terms, DOD’s oversight and management of the privatized housing program will require sustained oversight from Congress and GAO for the foreseeable future.

Chairwoman Wasserman Schultz, Ranking Member Carter, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have at this time.

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## GAO Contact and Staff Acknowledgments

If you or your staff members have any questions about this testimony, please contact Elizabeth A. Field, Director, Defense Capabilities and Management, at (202) 512-2775 or [FieldE1@gao.gov](mailto:FieldE1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Margaret Best (Assistant Director), Lori Atkinson (Assistant Director); Kristy Williams (Assistant Director); Matthew Young

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<sup>21</sup>Assistant Secretary of Defense for Sustainment Memorandum, *Military Housing Privatization Initiative—Approval and Notifications Policy* (Jan. 15, 2021).

<sup>22</sup>Assistant Secretary of the Army for Installations, Energy, and Environment Memorandum, *Residential Communities Initiatives (RCI) Major Decision (MD) Policy* (Jan. 25, 2021).



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(Analyst in Charge), Vincent Buquicchio, Clarice Ransom, Tida Reveley, Stephanie Santoso, and John Van Schaik.

# Appendix I: Status of Recommendations from GAO-20-281 Report

We made 12 recommendations in our March 2020 report on DOD’s oversight and its role in the management of privatized housing, including that DOD take steps to improve housing condition oversight, performance indicators, maintenance data, and resident satisfaction reporting.<sup>1</sup> Table 1 provides a full listing of our recommendations and their implementation status.

**Table 1: Status of GAO’s March 2020 Recommendations on DOD’s Oversight of Privatized Housing, as of February 2021**

Recommendation	Status of DOD’s implementation
The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, provide updated guidance for the oversight of privatized military housing, to include oversight objectives for each service to monitor the physical condition of privatized homes over the remaining duration of the ground leases.	Implemented
The Secretary of the Army should take steps, in collaboration with the Army’s private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.	Partially Implemented
The Secretary of the Air Force should take steps, in collaboration with the Air Force’s private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.	Partially Implemented
The Secretary of the Navy should take steps, in collaboration with the Navy and Marine Corps’ private housing partners, to review the indicators underlying the privatized housing project performance metrics to ensure they provide an accurate reflection of the condition and quality of the homes.	Partially Implemented
The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments and private housing partners, establish minimum data requirements and consistent terminology and practices for work order data collection for comparability across installations and projects and to track trends over time.	Implemented
The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment require the military departments to establish a process to validate data collected by the private housing partners to better ensure the reliability and validity of work order data and to allow for more effective use of these data for monitoring and tracking purposes.	Partially Implemented
The Secretary of Defense should ensure the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, develop a process for collecting and calculating resident satisfaction data from the military departments to ensure that the data are compiled and calculated in a standardized and accurate way.	Implemented
The Secretary of Defense should ensure the Assistant Secretary of Defense for Sustainment provides additional explanation of the data collected and reported in future reports to Congress, such as explaining the limitations of available survey data, how resident satisfaction was calculated, and reasons for any missing data, among other things.	Partially Implemented

<sup>1</sup>GAO, *Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing*, [GAO-20-281](#) (Washington, D.C.: Mar. 26, 2020).

Recommendation	Status of DOD's implementation
The Secretary of the Army should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Army housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Army housing office officials.	Partially Implemented
The Secretary of the Air Force should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Air Force housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Air Force housing office officials.	Implemented
The Secretary of the Navy should develop and implement a plan to clearly and systematically communicate to residents the difference between the military housing office and the private partner. At a minimum, these plans should include the Navy housing office's roles, responsibilities, locations, and contact information and should ensure that all residents are aware that they can directly contact Navy housing office officials.	Partially Implemented
The Secretary of Defense should ensure that the Assistant Secretary of Defense for Sustainment, in collaboration with the military departments, assess the risks of proposed initiatives aimed at improving the privatized military housing program on the financial viability of the projects.	Implemented

Source: GAO analysis of Department of Defense (DOD) information. | GAO-21-389T

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# Related Prior GAO Work

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*Military Housing: Actions Needed to Improve the Process for Setting Allowances for Servicemembers and Calculating Payments for Privatized Housing Projects.* [GAO-21-137](#) Washington, D.C.: Jan. 25, 2021.

*Military Housing: DOD Needs to Strengthen Oversight and Clarify Its Role in the Management of Privatized Housing.* [GAO-20-281](#). Washington, D.C.: March 26, 2020.

*Military Housing: Preliminary Recommendations to Strengthen DOD's Oversight and Monitoring of Privatized Housing.* [GAO-20-471T](#). Washington, D.C.: March 3, 2020.

*Military Housing Privatization: Preliminary Observations on DOD's Oversight of the Condition of Privatized Military Housing.* [GAO-20-280T](#). Washington, D.C.: December 3, 2019.

*Defense Infrastructure: Additional Actions Could Enhance DOD's Efforts to Identify, Evaluate, and Preserve Historic Properties.* [GAO-19-335](#). Washington, D.C.: June 19, 2019.

*Military Housing Privatization: DOD Should Take Steps to Improve Monitoring, Reporting, and Risk Assessment.* [GAO-18-218](#). Washington, D.C.: March 13, 2018.

*Defense Infrastructure: Army Has a Process to Manage Litigation Costs for the Military Housing Privatization Initiative.* [GAO-14-327](#). Washington, D.C.: April 3, 2014.

*Military Housing: Information on the Privatization of Unaccompanied Personnel Housing.* [GAO-14-313](#). Washington, D.C.: March 18, 2014.

*Military Housing: Enhancements Needed to Housing Allowance Process and Information Sharing among Services.* [GAO-11-462](#). Washington, D.C.: May 16, 2011.

*Military Housing Privatization: DOD Faces New Challenges Due to Significant Growth at Some Installations and Recent Turmoil in the Financial Markets.* [GAO-09-352](#). Washington, D.C.: May 15, 2009.

*Military Housing: Management Issues Require Attention as the Privatization Program Matures.* [GAO-06-438](#). Washington, D.C.: April 28, 2006.

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*Military Housing: Further Improvement Needed in Requirements Determination and Program Review.* [GAO-04-556](#). Washington, D.C.: May 19, 2004.

*Military Housing: Better Reporting Needed on the Status of the Privatization Program and the Costs of Its Consultants.* [GAO-04-111](#). Washington, D.C.: October 9, 2003.

*Military Housing: Opportunities That Should Be Explored to Improve Housing and Reduce Costs for Unmarried Junior Servicemembers.* [GAO-03-602](#). Washington, D.C.: June 10, 2003.

*Military Housing: Management Improvements Needed as the Pace of Privatization Quickens.* [GAO-02-624](#). Washington, D.C.: June 21, 2002.

*Military Housing: DOD Needs to Address Long-Standing Requirements Determination Problems.* [GAO-01-889](#). Washington, D.C.: August 3, 2001.

*Military Housing: Continued Concerns in Implementing the Privatization Initiative.* [GAO/NSIAD-00-71](#). Washington, D.C.: March 30, 2000.

*Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed.* [GAO/NSIAD-98-178](#). Washington, D.C.: July 17, 1998.

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