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**TESTIFIED BEFORE THE SUBCOMMITTEE ON MILITARY READINESS OF THE HOUSE NATIONAL SECURITY
COMMITTEE**

ABOUT THE PRIVATIZATION OF MILITARY HOUSING PROGRAM

Mr. Chairman and distinguished members of this Committee, I am very pleased to appear before you today to discuss the privatization and revitalization of military housing. With your permission, I would request that my complete statement be entered into the record.

Mr. Chairman, this is my first time appearing before you and your colleagues. This Subcommittee has long realized the important link between readiness and quality of life, and the critical role of housing to our Service members and their families.

You were a driving force in the establishment of this new and important initiative last year, and I am grateful for the opportunity to discuss our efforts to use private sector capital to help revitalize military housing. I would like to provide you with my assessment of our progress to date.

Overall, our first year has been successful. We both developed the programmatic foundations for housing privatization and began to use the new tools that you provided.

First, the Housing Revitalization and Support Office is up and running. HRSO provides the focal point for developing the legal, financial, and operational policies of the program. Such policies are required to ensure that the projects are accepted by the private sector and that they protect the Department's financial interests. HRSO helps develop and train our housing personnel in the intricacies of real estate finance. And it spreads lessons learned so that we do not have to learn how to build a new wheel each time.

Second, we have established: protocols for site visits, financial models to analyze the use of these tools at particular sites, a mortgage guarantee program to insure lenders against the political risk of base closure, downsizing and deployment, a process to provide direct loans and the conveyance of existing DOD assets to real estate developers.

Over the past year, we have had to deal with many legal issues, as well the impact of risk sharing between the government and the private sector. We have not resolved all of these issues and are working with OMB to that end. Both impact how we structure the real estate deals being developed.

Third and most important, we have initiated a number of projects that are helping us determine how best to use these authorities. One year ago, we expected that we would be able to put 2000 units of housing into the privatization pipeline.

In fact, the 6 projects approved for development thus far involve more than 4000 units and we plan to double that in FY 1997. The military services have nominated an additional 42 sites for evaluation in FY 97, and as we build on the lessons learned thus far, our program execution in both number of housing units and speed to develop deals should dramatically improve.

Mr. Chairman, I believe this first year has been successful, but we are working to improve our performance. We must continue to improve on the teamwork between the base commander, the Services, and key OSD offices (my office, Comptroller, and General Counsel). We must continue to revise our decision-making tools and work with the Office of Management and Budget to determine how our projects must be scored. And, consistent with managing the Department's financial interests, we must reduce our procurement times.

The funds appropriated to the Family Housing Improvement Fund have enabled us to develop critical tools, prepare the RFPs at a number of locations, and fund the government's contribution at our first project.

Going forward, we will use the funds appropriated to this account to support the best projects that help meet the program's objectives. We are now in an early stage in the program where we still are learning - and need to learn - what works. But we believe that it is important to establish incentives for all of the Services.

Specifically, we will award funds appropriated into this account, regardless of service, based on the following criteria:

- the project addresses a critical housing priority
- the project achieves our target leverage rate
- the project can be readily funded from other available sources
- the project expands our experience in using the tools and mechanisms
- the project broadens our base of project size and configuration

As our experience grows, we plan to refine these criteria and make them more specific.

In closing, Mr. Chairman, we have had a good first year. It has not been easy because we are having to learn how to do business in a new way. However, we are committed to the program and are working hard to build on our first year's efforts to increase its size and scope.

I am eager to work with you and I will do my best to answer your questions.