

Secretary of the Navy Richard V. Spencer
Chief of Naval Operations Admiral John Richardson
Commandant of the Marine Corps General Robert Neller
Discussion with Reuters
March 6, 2019

DEBORAH NELSON: We will keep it to PPV housing. There's a lot to talk about. So I wondered if we could – (inaudible) – to ask you, since the hearings, since these stories came out, military families have brought their own experiences and experiences – (inaudible) – privatized housing. I know you've done – you've been out there talking to them. So what have you found out? And what actions is the Navy going to take going forward?

SEC. SPENCER: Let me dive in and just – you heard it before, but I think it frames the conversation. You know, back in '96 we were solving the problem that we couldn't manage the housing ourselves. So we had a solution – put a solution in place. And it was interesting, during my analysis of the problem, you got to go back to where we began. But I spoke to some of the authors of the PPV product. And not surprising, in the beginning the secretaries were meeting with the CEOs of the PPVs once a month. Command was out meeting at the regional level once a month. The program was swimmingly well. You know, and what happened was people said, OK, it's running. And they stopped meeting and attention waned, to be very frank with you.

If you look where we are now, it's unacceptable, when we look at the examples that we see out there. The bottom line, though, after doing the field work and speaking to each one of our CEOs of the PPV and their senior managers, is the problem is eminently fixable with attention to detail and attention to how the system works, and getting command back involved. I'll turn it over to both the CNO and the commandant when I talk about getting command involved, because I think that's an integral part of the solution.

ADMIRAL JOHN RICHARDSON: Well, yeah, so during the visits that I've had and the folks that I've talked to, and in crafting our solution going forward, we are taking the point of view of sort of a junior sailor. Perhaps the sailor's deployed and the family is back in privatized housing. And so that in many ways is a – kind of a limiting case for us, right? And so we want to make the system executable from that perspective. In talking to families, I guess my major takeaway is that they are very, very reasonable, I would suppose. There is no sense hysteria or anything of that. They just really want to get this thing resolved. And so I just want to complement everybody involved who has taken that very solution-based approach going forward.

From our standpoint, the other thing that might have waned is the involvement of the chain of command. And so our focus has been to just get – make sure that the chain of command gets reengaged in this as just one part of taking care of their teams, writ large, right? And the most fundamental needs are the ones that need to be taken care of so that you can get to higher types of things like training and readiness and everything else. So, you know, housing, pay, food, those sorts of things have got to be taken care of. The chain of command has to be certain that those things are going well before they can move off from there.

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So our focus has been that. And then to the point of view of the perspective a junior sailor, much of this dealing with private property managers and all of that, well, they're brand-new at this. And so they just need someone to advocate for them, help them through it, teach them. And so that's – again, the chain of command will be their advocate. The housing office on base will be the ones that talk to the private partners. And the chain of command will be with the sailor advocating for them in that discussion, so.

MS. NELSON: It sounds similar to the situation that we walked into when we started doing this story, is the housing office was the advocate. And in fact they did, in some bases, serve as very strong advocates for families, but didn't have authority to override the PPV, or to force the PPV to do anything.

ADM. RICHARDSON: Right. So in the near term we just have to get this awareness and this advocacy thing worked out. In the far term, in terms of establishing a new equilibrium – and I'll – you know, I'll let the secretary speak to that. But we've to make sure that the – contractually, right, that there's a voice for the government in this in terms of getting resolution to these sorts of problems.

SEC. SPENCER: So one of the things that we did right away, that I did right away, was to reach out to the CEOs of our portfolio PPVs. And had a very frank data-centric conversation on the situation at hand. And I will tell you, across the board there is an appreciation for the issue. And here's what we're – here are some of the immediate things that we have done on the PPV side.

We are today going to release the framework, a draft of a tenants bill of rights. The PPV partners have been involved in this discussion. And I want to frame it as a discussion. And the reason I say "draft," is that it's at a 30,000-foot level, because for us to start putting teeth into it and getting specific we're going to have to go back and open up the agreement. In some cases, go back to bondholders and get their approval to really put meaningful meaning and action as you're talking about the ability to actually affect the bill of rights. But we're stepping out on that very quickly.

The PPV, the venture partners, are in lockstep with us on that. One of the things that both the CNO and the commandant have done on the other side of the equation for the tenants is mandate 100 percent visitation – call or visitation with everyone in housing on base and off base, if I'm not mistaken. That's what your charge –

ADM. RICHARDSON: We're doing off-base too.

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SEC. SPENCER: By April 15th. Again, reaching out, making the system work, and energizing it, again, to where it should be. Bill of rights is, as I said, going to be released today. The whole issue here is get the communications going. So during the communication with the private public venture partners, I said: Look – some of them are the largest apartment managers in North America – don't you have an app that you use for maintenance? Well, we do. Well, can we drag that into our community? That's being energized right now, to get an app that they can all agree upon, which I think will happen quickly because we, the service secretaries, are going to make sure that happens. Have that out there for the communication ability to be in effect.

ADM. RICHARDSON: I'd just say a little bit about the 100 percent contact is just to make sure that we've got an accurate site picture of the situation, right? So it seems that, you know, the information we have right now, the survey data and that sort of thing, there's just a gap between that data and what we're learning from our discussion with the families. So this 100 percent contact is to make sure that we truly understand the reality on the ground.

MS. NELSON: I think MFAN – the MFAN survey was quite different, also, than the survey that you get from CEL – you know, the satisfaction survey.

GENERAL ROBERT NELLER: Well, you're going to have to reconcile that data. So they have their stats, I don't dispute them. And then you've got the vendors' stats. So and we realize there's some places where there's good management, the satisfaction rate is very high. And it could be the same company but a different location where they have a different management team and they're not efficient. So clearly, you know, it's a readiness retention issue that a Marine or sailor, serving with Marines, or any service member lives in a safe, secure, functional home. And I agree with the secretary and the CNO. I think over time, you know, this was – we thought it was working well. We got busy doing what we've been doing the last 17 years. And it was a private-public-venture thing. And it was – you know, you – there's always a reluctance to go into somebody's home, or even, you know, you have to ask their permission.

So I think we took the – we took our eye off the ball. And now we're back in it. Although, I think for us – you know, social media is a very powerful tool. Spouses, to include our spouses, are on all sorts of webpages. And they talk about what's going on in their homes. And I assure you, in the past two or three years when I've seen that, you know, at the direction of my wife, you know, OK, what's going on out there with this house, with this house, and with this house. And we've engaged. Called the base, called the housing office. And so we found in this discussion that there were a lot of people who didn't know – you know, they knew they were supposed to call the PPV vendor. Well, if you don't get satisfaction, call the housing office. And then the housing office is, as we have discussed, supposed to be the intermediary. And then, you know, tell you chain of command, because obviously we have equity in that your satisfied with where you live and your conditions.

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So we're going to – between now and the 15th of April, with the permission of the Marine or the sailor living in housing on any base – we're going to ask them if we can come visit them, ask them questions about the condition of their home, explain some stuff. If they don't want us to visit, OK, fine. We'll call them. Ask them if they'll take a call. And if not, we'll just give them some information. Like here's a – just so you know, here's the numbers you're supposed to call. Here's the process that's supposed to go on. Here's the things that the vendor's supposed to do. And here's your responsibilities as a lessee. And there will be some education on both sides. But, you know, we'll – this is fixable, but it's going to take some effort on everybody's part. So I think there's goodness in here, as unacceptable as it appears to be right now.

MS. NELSON: Well, you know, the – again, the communication – that's why I want to come back to the bill of rights that you're talking about. And maybe we can get some more details on that, because so many families we talked to did follow that process and were not able to get the problems fixed. And in fact, one of the ones we highlighted from Gulfport got a letter from the IG in which he said: What can you do about this? And he said, we can't – we don't have authority to interfere with PPV's business. We're talking about mold, and a family that was evicted for cleaning out their – paying \$1,000 to clean out their own vents. So what will – what will change on that front?

SEC. SPENCER: We have the ability to work with our PPVs. There's this – there's this – and I don't have the exact phraseology. We are a passive partner by legal structure. That does not mean that we cannot be involved in the quality of the product being delivered. That is the whole reason for the quarterly meetings with the CEOs and the PPVs. If anything, this cathartic event that we have gone through is probably going to have a very beneficial outcome, due to the fact that we are dusting off – for lack of any other phrase also – our avenues and channels of communication.

It's like – and I don't mean to make this sound like a brilliant flash of the obvious, but it almost is – this is like running any organization. It takes effort. It takes energy. It takes attention. And it takes education. We have to get to the point where we're communicating. The PPV partner educates their tenants on the product and how the system works. Command monitors to make sure that's going on. And the secretariat level makes sure that the fundamental product being delivered is exactly what we signed up for.

MS. NELSON: So what would be –

ADM. RICHARDSON: And to the point of this contract, revision if needed, you've got to put some contractual teeth into it, so that there's – you're not relying on vague terms that could be interpreted different by folks. So, hey, within this many – one day – or whatever it might be, there's some specificity there in terms of response. How's that – let's say for a repair, a repair within a certain amount of time, that's then inspected by a certified person in terms of being adequate.

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That's a contractual arrangement that can be enforced. And so I think as we move forward from the bill of rights – which is in draft form today – we'll get to that level of specificity in a sustainable way that is acceptable to both the tenants, and the private partners and the government, so.

SEC. SPENCER: And what's – one reason I'm optimistic about it, and you might hear it in my voice – is that we have been communicating with all parties. As an example, the private public venture partners are – the concept of command getting, quote/unquote, “back involved,” they're welcoming with open arms. They said it could only be beneficial. So now we have to go effect it. None of this is rocket science. There is human nature in everything that we have discovered, where there are brilliant communities operating like a Swiss watch – the tenants are involved, there's a good manager, communication works. On the other end of the spectrum, not surprising, where it's not working there's usually a manager that is not strong, if not not correctly aligned to be pleasant about it. And it's not – things are not getting done the way they should be. Swap the person out, make sure that we have the feedback loops, and everybody's paying attention.

MS. NELSON: So – no, go ahead Mike.

MIKE PELL: So one concern that I've – one concern that I've heard raised among families and other interested parties is, first of all, this idea that the problems are, you know, base managers, low-level people. And the idea has been thrown out there that when there are problems found, rather than addressing the corporate structural problems, or the lack of checks and balances in the relationship between the military and the private partner, there is a fall guy at a kind of lower level that is identified. And that buys the partnership a little bit more time. And this isn't to say that the partnership is – you know, is ineffective or can't be fixed. Just that there are some – there are some fundamental structural problems when you're relying on oversight from one of the partners, who both – who both have a common goal of advocating for their – for their housing programs. How do you address that?

SEC. SPENCER: Yeah. So my – so that's a valid observation. And my response is, you have the channels of communication open. I mean, the fact of the matter is we were down in Norfolk on Thursday, I think, and we visited a house where they had just done a repair. And it was an absolutely atrocious repair job. We got the PPV partner on line – now, granted, the secretary's down there. I get it. But I'm using it as an example of that manager had had a bad rap. He's been removed from the system. And it was – and the issue was corrected. And I have not seen the corrected product.

And it doesn't mean that the secretary of the Navy has to visit every single house. The secretary of the Navy needs to weigh in with the CEO of the organization saying: This is not the product we've signed up for. We have a fundamental issue here if you can't correct this. And when you correct things, correct the root problem. If there's a leaky roof, don't replace the plaster. Go up and fix the roof, to simplify it. But –

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MR. PELL: Uh-huh. But – and I see exactly what you’re saying there. And I’ve heard from some families in Norfolk that were really impressed by the secretary’s visit and by him. But when you’re talking about the root problem – I mean, is the root problem that managers on base aren’t identifying the repairs that need to be made? Or is it that there is pressure from the highest levels of the corporations involved – Jarl Bliss at Lincoln, Chris Williams at Balfour Beatty – to keep maintenance costs low? And as a result, no matter who you have at the base level, you’re going to have – you’re going to have these types of problems?

SEC. SPENCER: Well, it’s the same – it’s the same observation that anyone might have about an airline, that the ticket agent is the fall person for the CEO who doesn’t want to put you on the next flight. You can’t afford to have that challenge your brand equity. And in this case, I hear where you’re coming from, but it cannot stand. Do we have corrective actions to go down, Mike? Yes, I agree 100 percent. I mean, I went in and saw some repairs in other houses that you kind of go, wow, why didn’t you just do it right the first time?

And to give you a feel for that, even in the Norfolk community there’s a fellow named Mike who they all rave about when he comes into your house because he fixes it like – quote/unquote, “like it’s his house.” And then you have the inconsistency of some other knucklehead come in with dirty boots on and leaving his fingerprints everywhere. We have to get consistency in there. But it takes paying attention to what’s going on. And that sounds like an easy statement, but it truly mean paying attention is from the secretariat level on down.

ADM. RICHARDSON: And Mike – Admiral Richardson here – I think one of the – what your question goes to also is a fundamental matter of trust in the system. And so as part of the equilibrium that we need to establish is that we have to have somebody else besides the private partner inspecting their own work, right? So we’ve got – we’ve got insert a third-party –

SEC. SPENCER: Yep, quality control.

ADM. RICHARDSON: – certified person to inspect the repair, for instance, and say: Yep, that’s done to quality. That’s according to code. Hey, tenant, come here, do you see that, and you agree? And then it’s done, right? But what we’ve gone – I think, if I understand your question – is we’ve got a little too much of the partner inspecting itself. And then it’s just going to be subject to all of the temptations that come with kind of the fox guarding the henhouse type of dynamic.

SEC. SPENCER: But, Mike, I think that was because we took our eye off the ball, to be very frank with you. There’s culpability around the table, but I think the fact that we took our eye off the ball allowed this to perpetuate itself of the – you know, of the fox guarding the henhouse. That would be just my assessment in reaction to your observation, which there is data to support that argument. And my line is, in return, nothing disinfects like sunlight. We just got to – we got to be paying attention to all four corners of the room.

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MS. NELSON: So what –

MR. PELL: OK, yeah. And that makes a lot of sense. And especially hearing Admiral Richardson saying – bringing somebody – a third party into inspect the work and to make observations. And I hope – you know, what we’re not – we’re not – we’re willing to listen to this. And this really makes a lot of sense and is helpful. And I’m sorry, Deb, I think I cut you off.

MS. NELSON: Well, I just wanted to drill down just a little bit on that. So are you saying that’s going to happen, that there will be a third party –

ADM. RICHARDSON: The third party might be the housing office, right? So they have a formal relationship in terms of going in there and inspecting to the satisfaction of everybody –

MS. NELSON: Are they really trained to look at –

ADM. RICHARDSON: Well, I mean, they’re going to have to find – the responsibility. I don’t know if that will be the person, but it’ll be their function to make sure that they get a certified inspector in there, right? I mean, it’s got to be trained and certified.

GEN NELLER: Like other things, the base housing offices have atrophied over the years. You know, back when the government owned the housing you went to the housing office, they issued you a house, you went to the house. The base housing person was there, they walked you through the house, you got the keys, and you accepted the house. Now, I’m assuming that happens with the PPV vendor, you accept the house. And so, you know, you buy the car. OK, and then when you left the housing office came and they inspected the house. And it was a very thorough inspection.

And so I’m not saying it was better then, because the house – many of the housing units were older, they were what they were. So it gets down to this process. And I would agree with you, I don’t think our housing offices today have the depth and the expertise to do this. But, I mean, we’re probably going to have to look at that as we get more involved in this. Somebody – it comes down to trust. And I’ve talked to PPV vendors at certain bases. I’ve said, hey, look, nobody trusts you anymore because you say one thing and if you do it – you know, like the secretary said – you didn’t – just – it would save you money if you just did it right the first time.

So we’ve had conversations with them. And the results have been depending upon where you go. So, you know, we can point the finger – put the finger rightfully in their chest, which we have, and the secretary has, and we’ll continue to work with them. And military families, you know, Marine families, Navy families, are really resilient. They just – they don’t expect to live in the Taj Mahal, but they do expect the place to be safe, and not to have hazards, and stuff to work. And the PPV vendor’s supposed to provide that.

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And if they don't, then the base housing office and if necessarily the chain of command are going to have to get more involved in that because they got to hold up their end of the deal. Just like we got to hold – just like anybody's renting a property's got to – you do your best to take care of the property.

CAPTAIN GREG HICKS: We got time for a couple more questions.

ADM. RICHARDSON: Deb, just to come back – circle back on your question, right, it might not be, like, the person who's in that housing office who does it, because they may not have that training, but it'll be their responsibility to find the proper people to go in there, certified to make a quality assessment of the – of living there.

SEC. SPENCER: I mean, as an example, you know, do we need an engineer every single time? No. A lot of – we go through with a lot of the ones that are brought – that people complained about openly, and rightly so – you know, patching a hole with insulation batting. I mean, I'm not an engineer, but I'm going to go in and go: That doesn't fly. Get back here and put some Masonite board up there, or something. A toilet that wobbles because they put a new wax gasket on wrong. I mean, this is what's supposed to be fixes. Does it – you know, the first cut is: Does it look right? I mean, I saw some they were just – you know, they just gobbled caulking over it. Is that right? No. Rip that out and do it again. This is not an acceptable fix.

MS. NELSON: So it sounds like you saw for yourself some pretty shoddy repair work.

SEC. SPENCER: Yeah. Yeah.

ADM. RICHARDSON: We all have.

MS. NELSON: Yeah? So, just the take away from, you know, what's happening going forward, you'll – you're talking about inspections of repair work. So double-checking, not having – not having the PPV police itself on that, and put its own – you know, the – how they – their record for fixing problems, of course, leads to them getting incentive fees, right? They have a good track record, they get incentive fees. So there's going to be closer auditing of that process. Because I know at Camp Pendleton they were saying problems were fixed, when they weren't. And so –

ADM. RICHARDSON: That's right. Right, so you got to have an independent assessor to say the problem's fixed. You can't have the team that's incentivized to say it's fixed.

MS. NELSON: And who pays for the inspection? Where does that money come from?

SEC. SPENCER: I mean, if it's – we haven't – to tell you the truth, if we work it out of the office, it's the office overhead. But I can't tell you exactly what account that comes out of. Work in progress.

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MS. NELSON: So – yeah. So the Navy and the Marines would pay for essentially looking over the shoulder of the PPVs rather than PPVs having to pick up that cost?

SEC. SPENCER: I mean, where's the housing office line item? I actually don't know. It would be in the housing office.

MS. NELSON: Right. OK. RECP, you know, the Army suspended it. Have you taken a look at that at all?

SEC. SPENCER: We're analyzing it. This is – this is – again, what you're going to see here on the Navy and Marine Corps team – and I'm not criticizing the Army – we're not going to do a knee-jerk reaction. There are some complaints out there. I just started digging into it. It actually is a very interesting product that was created a while ago. Do we have technology that might be able to update it and make it a better product? Yeah, we do. It fundamentally has some value to it.

The problem is we got to make sure, as an example, if you have a community that is in the database that creates your band – you RECP band, you know, and one house has a 17-year-old air conditioning system and one house has a one-year-old air conditioning system, the efficiencies in technology of the air conditioning systems have changed dramatically. We got to make sure that in the recapitalization that's going on also, because you can't subject someone RECP program to be handicapped. Or, if they are handicapped, they need to get some handicapped points to bring them into the band. Again, we're just beginning to look at that in earnest.

MS. NELSON: You talked about renegotiating some aspects of the contract with the PPVs and with the bondholders. What would you renegotiate?

SEC. SPENCER: I have no idea, because I haven't read the document in full. But if we turn around and say that X, Y, Z has to be done in 17 days, or the ability to withhold – put money in escrow, I don't know what effect that – holding that in escrow might have on the cashflow to the bondholder. And he might have in his bond the ability to – the way it works now, the VAH goes into a lockbox, as you know, and then the debt service is paid. If I start playing around with that cash flow pre-the lockbox, that might – the bondholder might have to agree to that. And I'm just speculating because I haven't gotten that far. But that's the kind of thing – to make sure that the bill of rights has teeth that are meaningful we're going to have to obviously get technically involved in how that affects the agreement itself.

MS. NELSON: Just highlights of the bill of rights? What are the highlights?

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SEC. SPENCER: It'll be coming – it'll be coming. It's nothing that you wouldn't expect of a bill of rights. You know, safe housing, the ability to get responsive repair. It's going to be very 30,000-foot construct, and we – rapid repairs. We're using all the words that we're going to have to change because "rapid" doesn't mean anything. Three-seven days might mean something. To make it three to seven days, what does that do in the agreement? Can we do it? So what you're going to see today is the construct of the bill of rights. And then you're going to find that the final document's going to be the tight, operable document.

CAPTAIN HICKS: That's about all the time we have. Any closing comments or a last question?

MS. NELSON: Are we going to – will we get the bill of rights?

CAPTAIN HICKS: That'll be released later today. I'll – we'll talk to you after this about timing.

MS. NELSON: OK.

MR. PELL: I'd just like to say one thing. I appreciate everyone's time here today. And I'd really like to take just a second to point out that we, here at Reuters, don't have an axe to grind with the military. That the reason we're writing this story is because, for example, I have – my father's an Annapolis graduate, my uncle is. My uncle spent his career commanding submarines. And I've talked to him about this pretty extensively. And he really has impressed upon me a sense of the importance that housing, and the living conditions play in commanding those that serve under you. And we believe in – we just want – the whole point we're doing this is not to, you know, take a swing at the military. We respect the work that you guys do on a daily basis. And as you said earlier, we're just trying to, you know, provide some sunlight on these issues.

SEC. SPENCER: Michael, that's appreciated. And thank you for bringing that up, because one thing – to make perfectly clear from my point of view, and I'll also let the CNO and commandant weigh in – is that housing directly correlates to readiness. It's a direct component of readiness. Just like the aircraft has to be up, the housing has to be acceptable, safe, and of good quality. What you have done is – and I'll go back to what I said earlier. I think this cathartic event will have benefit on the other side. I don't think it, I know it.

MS. NELSON: Thank you so much.

ADM. RICHARDSON: Thank you very much. Appreciate it. Thank you, Mike.

MR. PELL: Thank you.

(END)