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Proposed Closure of Kincheloe Air Force Base, Michigan.
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Report to Rep. Philip E. Ruppe; by Robert F. Keller, Deputy
Comptroller General.

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The proposed closure of Kincheloe Air Force Base is part of a continuing effort by the Air Force to reduce support and overhead costs and to reallocate additional resources for force modernization and increased combat capability. Findings/Conclusions: Numerous errors were found in the Air Force's estimate of costs and savings if Kincheloe were closed. The current proposed closure could result in annual recurring savings of about \$28 million; one-time costs of about \$27.9 million; and one-time cost avoidances of about \$9 million. The closure would further depress the economy in the eastern part of Michigan's Upper Peninsula, and undoubtedly would result in increased Federal expenditures to assist affected communities and individuals. The total estimated one-time costs include estimates for impact aid to school districts and for unemployment compensation and food stamps for affected Kincheloe employees. Closure of the base would also drastically affect the local economy by causing an increased housing vacancy rate, depressing real estate values, and causing a substantial business loss in the area. Federal response to the closing might also include establishing a local development organization, developing a regional plan to attract private investment, training unemployed persons to fill existing or new jobs, converting Department of Defense facilities for civilian use, and providing loans to build and equip plants for new industry. (Author/SC)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Proposed Closure Of Kincheloe Air Force Base, Michigan

Department of Defense

The proposed closure could result in

- annual recurring savings of about \$28 million,
- one-time costs of about \$27.9 million, and
- one-time cost avoidances of about \$9 million.

The closure would further depress the economy in the eastern part of Michigan's Upper Peninsula and trigger an increased amount of Federal aid to affected communities and individuals. Although the extent and amount of such aid cannot currently be accurately determined, in several instances there was sufficient data to make cost estimates.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-168700

The Honorable Philip E. Ruppe
House of Representatives

Dear Mr. Ruppe:

On June 17, 1976, you asked us to report on several matters concerning the proposed closure of Kincheloe Air Force Base, Michigan. As you requested, this report

- evaluates the Air Force estimate of savings and costs resulting from closing Kincheloe,
- assesses the accuracy of the Air Force estimate of the economic impact if Kincheloe closes, and
- contains cost estimates, which were reasonably supported, for Federal agencies other than the Department of Defense.

As you requested, we did not present this report to the Department of Defense for their review and comments. We did, however, discuss our findings with Air Force representatives.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. W. K. 11/11/76".

DEPUTY Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE HONORABLE PHILIP E. RUPPE,
HOUSE OF REPRESENTATIVES

PROPOSED CLOSURE OF
KINCHELOE AIR FORCE
BASE, MICHIGAN
Department of Defense

D I G E S T

On March 11, 1976, the Secretary of the Air Force announced the start of a detailed study to analyze the potential effects of closing Kincheloe Air Force Base, Michigan, by October 1977.

The proposed closure is part of a continuing effort by the Air Force to reduce support and overhead costs and to reallocate additional resources for force modernization and increased combat capability. (See p. 1.)

GAO found numerous errors in the Air Force's estimate of costs and savings should Kincheloe be closed. Nevertheless, the current proposed closure could result in

--annual recurring savings of about \$28 million,

--one-time costs of about \$27.9 million, and

--one-time cost avoidances of about \$9 million. (See ch. 2.)

The closure would further depress the economy in the eastern part of Michigan's Upper Peninsula and undoubtedly result in increased Federal expenditures to assist affected communities and individuals. Although the extent and amount of such aid cannot currently be accurately determined, in several instances there was sufficient data to make cost estimates.

The total estimated one-time costs of about \$27.9 million include estimates for impact aid to school districts (\$2,629,000) and for unemployment compensation (\$2,584,000) and food stamps (\$186,000) for affected Kincheloe employees. These represent a portion of the costs of Federal programs that might assist affected communities and individuals. (See pp. 12-15.)

This report was not presented to the Department of Defense for their review and comments.

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

On March 11, 1976, the Secretary of the Air Force announced plans to study numerous proposed base realignments. The proposed actions to be studied are part of the Department of the Air Force's continuing effort to reduce overhead and support costs and to reallocate additional resources for force modernization and increased combat capability. According to the Secretary, these actions would save about \$150 million per year. The announcement included Kincheloe Air Force Base, Michigan, as a candidate for closure, effective September 30, 1977.

Kincheloe was selected because of a review of basing capacity within the Strategic Air Command. The review disclosed that recent force reductions had resulted in excess capacity and that bases where the Command constitutes the sole mission offer the best potential to reduce costs. After assessing single-mission bases, the Air Force selected Kincheloe as a candidate for closure, and two other single-mission bases--Wurtsmith Air Force Base, Michigan, and Blytheville Air Force Base, Arkansas--as alternatives if Kincheloe is not closed.

The Air Force's selection process included comparing costs and savings associated with the bases under consideration, as shown in the following table.

<u>Category</u>	<u>Kincheloe</u>	<u>Wurtsmith</u>	<u>Blytheville</u>
	----- (000,000 omitted) -----		
Annual recurring savings	\$22	\$22	\$20
One-time costs	11	11	5
Construction cost avoidances	9	13	7

In addition, the Air Force determined the environmental and economic impact the base closures would have on surrounding communities. It found a minimal environmental impact but a substantial adverse economic impact at all three bases.

The rationale for selecting the candidate and alternative bases is in the following Air Force documents, released in draft form for comments from interested parties in September 1976:

- Resources Evaluation Base Realignment Proposal.
- Operational Evaluation Base Realignment Proposal.
- Environmental Impact Statement.

Closing Kincheloe would result in the following force realignments of its aircraft: the 16 F-52s would be transferred to Ellsworth Air Force Base, South Dakota, and K. I. Sawyer Air Force Base, Michigan; and the 16 KC-135s would be assigned to Air Force Reserve units.

HISTORY OF KINCHELOE AIR FORCE BASE

Kincheloe, about 25 miles south of Sault Sainte Marie, Michigan, and the Canadian border, was built in 1941 as part of the general defense pattern of northern Michigan. Known then as Kinross Auxiliary Air Field, it was a refueling base for Alaska-bound aircraft throughout World War II.

Following postwar inactivation, the base was reactivated in 1952 and began operating within the air defense network in 1953. In November 1961 it took on an additional mission: the Strategic Air Command's 4239th Strategic Wing, with its B-52 Stratofortress bombers and KC-135 Stratotankers, was assigned there. In February 1963 this wing was redesignated the 449th Bombardment Wing, with the mission of long-range bombing and effective air refueling. In 1968 the air defense mission moved to Griffiss Air Force Base, New York.

Kincheloe consists of about 6,200 acres, 987 buildings, and a 12,000-foot runway. Its authorized personnel strength in March 1976 was 3,186: 381 officers, 2,333 enlisted personnel, and 472 civilians. For fiscal year 1976 the military and civilian payrolls were about \$31 million and \$7 million, respectively, and local procurement was about \$10 million. Department of Defense (DOD) investment in real estate, equipment, supplies, and aircraft is estimated at \$508 million.

SCOPE OF REVIEW

We reviewed Air Force estimates of the costs and savings in closing Kincheloe, but did not evaluate its estimates on closing Wurtsmith and Blytheville. We also examined two

economic impact reports: one prepared at the direction of the Air Force and the other prepared at the direction of the Kincheloe Area Economic Committee.

We made our review primarily at the Kincheloe base in Michigan; the Strategic Air Command Headquarters, Offutt Air Force Base, Nebraska; and at Air Force Headquarters, Washington, D.C. We discussed with Air Force officials the costs and savings and the economic impact resulting from closing Kincheloe.

CHAPTER 2
SAVINGS AND COSTS RELATED
TO THE PROPOSED CLOSURE

The Air Force estimated that the proposed Kincheloe closure would result in annual recurring savings of about \$22.2 million, one-time costs of about \$11.3 million, and one-time cost avoidances of about \$9.3 million.

We estimate that the proposed action would result in annual recurring savings of about \$28 million, one-time costs of about \$27.9 million, and one-time cost avoidances of about \$9 million.

The sections that follow compare the Air Force's estimates and our estimates of annual recurring savings, one-time costs, and one-time cost avoidances.

ESTIMATED ANNUAL RECURRING SAVINGS

	<u>Air Force</u>	<u>GAO</u>	Amount GAO over or (under) <u>Air Force</u>
	----- (000 omitted) -----		
Decreased annual costs:			
Military personnel	\$12,173	\$16,423	\$4,250
Civilian personnel	5,560	6,872	1,312
Base operation and maintenance	4,181	4,583	402
Family housing opera- tion and maintenance	1,359	851	(508)
Air delivery service	297	103	(194)
Communications	<u>(129)</u>	<u>368</u>	<u>497</u>
Total	<u>23,441</u>	<u>29,200</u>	<u>5,759</u>
Less increased annual costs:			
Medical	129	328	208
Military personnel support	1,155	858	(297)
Radar station	<u>-</u>	<u>61</u>	<u>61</u>
Total	<u>1,275</u>	<u>1,247</u>	<u>(28)</u>
Total estimated annual savings	<u>\$22,166</u>	<u>\$27,953</u>	<u>\$5,787</u>

Military personnel

The Air Force estimated the closure would eliminate 1,018 military positions and save \$12.173 million a year. It assumed that all direct support positions for B-52 aircraft would be transferred along with the planes to other bases; however, because the aircraft would be transferred to bases already having a B-52 maintenance capability, we questioned this assumption. After recomputation, the Air Force found that it needed to transfer 313 fewer positions than the 1,216 it had originally planned for, thereby increasing the eliminated positions at Kincheloe by 313. Using more current staffing data and correcting minor Air Force computation errors, we eliminated 52 additional positions for a total of 1,383. The personnel savings is estimated at \$16.423 million.

Generally, under a reallocation of resources for military program staffing, eliminating positions could result in savings because overall agency staffing requirements could be reduced and trained personnel freed or made available to accomplish other authorized current or expanded missions. Military personnel occupying positions that might be eliminated may be reassigned to replace similarly trained personnel at other locations who retire, resign, or separate upon completing their tour of active duty. Funds allocated to staff the eliminated positions are thus freed for other uses, such as increasing combat capability or reducing funding requests.

Civilian personnel

The Air Force estimated that the closing would eliminate 397 full-time civilian positions. The Air Force estimate did not include 52 full-time positions at the commissary, disposal yard, and Corps of Engineers office, nor did it include part-time positions for seasonal work, such as snow removal. The budgeted expenditures for part-time help equaled 34 full-time positions.

Of their tally of 449 full-time positions, the Air Force estimated that 195 would be separated, 142 placed in other Government jobs, and 112 would retire.

Base operation and maintenance

We were unable to verify the Air Force estimate of \$4.181 million saved in base operation and maintenance because of inadequate documentation. Our estimate of

\$4.583 million is based on actual costs incurred for fiscal year 1976. This amount recognizes a base operating support offset of \$1.155 million for increased costs at bases receiving aircraft transfers from Kincheloe.

Family housing operation and maintenance

The Air Force overestimated by \$508,000 the savings in family housing operation and maintenance because it included civilian labor costs already included in estimated civilian personnel cost savings.

Air delivery service

The Air Force overestimated by \$194,000 the savings applicable to air delivery service to Kincheloe because of incorrect mileage. The Air Force currently contracts for a daily air delivery service that is routed from Sawyer to Kincheloe to Wurtsmith. According to available maps and discussions with Air Force personnel, bypassing Kincheloe would save 50 air miles daily rather than the 180 claimed by the Air Force.

Communications

The Air Force underestimated by \$497,000 the savings in communications because (1) it did not include costs of \$368,000 for leased telephone lines and communication networks that would not be needed if the base closes and (2) it incorrectly included, as an offset to savings, \$129,000 for communications costs attributable to KC-135s, which we found would have transferred to the Reserve regardless of the Kincheloe closure.

Medical

The Air Force underestimated by \$208,000 increased annual medical costs by not considering medical costs for other than Kincheloe-based military personnel and their dependents who currently use the base hospital. The base hospital is also used by local armed forces recruiters and the Air Force radar station and Coast Guard personnel at Sault Sainte Marie. If the base closes, these military personnel and their dependents would be cared for by civilian doctors and hospitals under various DOD medical programs.

Military personnel support

The Air Force estimated that additional annual military personnel support costs could be incurred as a result of transferring B-52 aircraft to other bases. In calculating its estimate, the Air Force used an Air Force-wide average cost factor of about \$950 per position. As discussed on page 5, the number of positions needed was reduced by 313; thus, our estimate reflects costs of 903 transferred positions.

Radar station

Kincheloe currently supports the Air Force radar station at Sault Sainte Marie. If the base closes, station officials estimate that the Air Force would spend an additional \$61,000 annually for rental of trucks, maintenance of equipment, leased housing, dental equipment and supplies, and increased dining and commissary operations.

ESTIMATED ONE-TIME COSTS

	<u>Air Force</u>	<u>GAO</u>	<u>Amount GAO over or (under) Air Force</u>
	(000 omitted)		
Cost element:			
Military movement	\$ 2,896	\$ 2,935	39
Civilian movement	158	387	229
Civilian placement	8	18	10
Civilian severance	488	412	(76)
Civilian lump-sum payment	231	-	(231)
Homeowners assistance	1,579	3,000	1,421
Construction	5,561	5,235	(326)
Material transporta- tion	213	1,705	1,492
Communications	156	156	-
Contract termination	47	981	934
Initial caretaker period	-	7,677	7,677
Other Government costs	-	5,399	5,399
Total	<u>\$11,337</u>	<u>\$27,905</u>	<u>\$16,568</u>

Military movement

The Air Force estimate for military movement includes travel for 2,234 military personnel and their dependents and

associated expenses, such as transportation of personal property. Our estimate, using more current staffing data, shows a need to move 2,286 military personnel.

Civilian movement, placement, and severance

The Air Force estimates for civilian movement, placement, and severance were based on an allocation of these expenses among 397 employees. The Air Force was unable to provide support for the factors used in making these allocations. Also, it did not include the 52 full-time civilian employees discussed on page 5. Our estimates are based on an analysis of the civilian work force at Kincheloe, consideration of local employment conditions, and Air Force experience in other base closures.

Civilian lump-sum payment

The Air Force estimated terminal leave payments of about \$231,000; however, this is not a cost to the Government as a result of the proposed base closure. The affected employees would either use their annual leave, should they remain in the Government, or eventually receive lump-sum payments for it. In either event, the Government's liability for the leave would be accrued as a normal fringe benefit of employment and not due to the base closure. It is possible that a present value analysis of the payments would show a savings or a cost to the Government; the amount, however, would not materially affect the relationship between costs and savings for the proposal.

Homeowners assistance

We could not evaluate the estimates for homeowners assistance costs. We do not believe that the costs can be determined with reasonable accuracy until after closure. The Air Force estimate was based on DOD experience in past base closures. Since this estimate the U.S. Army Corps of Engineers, managers of the homeowners assistance program, made a special study of Kincheloe-related homeowners assistance costs. This study was based on a survey of the estimated number of homes owned by Kincheloe personnel and the expected marketability of these homes. The study estimated the Government's cost for homeowners assistance to be \$3 million for losses on 375 homes.

Construction

Our estimate for construction costs differed from that of the Air Force because we (1) excluded costs totaling \$562,000 for the expansion of facilities at several bases

which were incorrectly attributed to the transfer of aircraft from Kincheloe; and (2) included \$236,000 for construction of a security facility needed for transferred Kincheloe aircraft.

Material transportation

The Air Force estimate of \$213,000 was based on the transportation and packaging of 275,000 pounds of excess material. At our request, the Air Force reestimated the material transportation cost on the basis of the estimated weight of vehicles and equipment at Kincheloe.

The revised cost for transportation and packaging of 14.1 million pounds of equipment and vehicles was about \$1.705 million. The equipment weight figures are a broad estimate, and the transportation cost per hundredweight was figured on a first-class rate in lieu of being able to identify actual volumes, numbers, types, and destinations of items to be shipped.

Contract termination

The Air Force was unable to support its estimate for contract termination. Our estimate of \$981,000 is based on an analysis of termination clauses in current contracts for natural gas, aircraft fuel, and construction of a dormitory.

Initial caretaker period

We estimate the Air Force would incur costs of \$7.677 million for caretaker expenses for the first 18 months after closure. This amount includes salaries for about 321 military and civilian caretakers and other expenses, such as vehicles, utilities, and supplies. 1/

The Air Force did not include the costs of maintaining its planned 321 caretakers in its overall estimate. These costs were considered as operational costs for the 18-month period. However, we believe the costs are directly related to the base closure and should be included.

1/If base disposal is not completed within 18 months, the General Services Administration would assume control of the base and absorb any further caretaker expenses. While any costs incurred by General Services should be part of the closure costs, the incurrence of such costs is problematical and their extent impossible to estimate at this time.

Other Government costs

The Air Force estimate did not include costs for other Government programs, such as payments to school districts, unemployment compensation, and food stamps. We estimate these costs to be about \$5.4 million. As discussed in more detail in chapter 3, these represent a portion of the federally funded programs that might be available to the Kincheloe area. These programs continue for some time after a base closure, and we therefore included in the one-time costs their estimated costs for as much as 3 years after the closure.

ESTIMATED ONE-TIME COST AVOIDANCES

	<u>Air Force</u>	<u>GAO</u>	Amount GAO over or (under) <u>Air Force</u>
	----- (000 omitted) -----		
Cancellation of construction projects:			
Alert crew facility addition	\$ 334	\$ -	\$ (334)
Commissary warehouse addition	261	-	(261)
Child care center	423	-	(423)
Dormitory	-	2,131	2,131
Flight simulator facility	2,843	1,507	(1,336)
Others (total of 7)	<u>5,405</u>	<u>5,405</u>	<u>-</u>
Total	<u>\$9,266</u>	<u>\$9,043</u>	<u>\$ (223)</u>

Cost avoidances shown by the Air Force represent DOD scheduled but unstarted construction projects at Kincheloe through fiscal year 1981. Some of the projects require additional DOD and congressional review before being approved.

We excluded costs for the alert crew facility addition because the Air Force canceled this project about 2 years before the March 1976 closure candidate announcement. We also excluded costs for the commissary warehouse addition and the child care center, which would be built with non-appropriated funds.

Our estimate included a dormitory project that the Air Force erroneously omitted. The Air Force awarded a contract for this project in November 1975, but work was suspended in March 1976. The Air Force plans to construct the dormitory if Kincheloe is not closed.

The Air Force cost avoidance includes \$2.843 million for a flight simulator facility scheduled for construction at Kincheloe in fiscal year 1979. However, Ellsworth has a flight simulator facility scheduled for construction the same year, and, if B-52 aircraft are transferred there from Kincheloe, it will need enlarging at a cost of \$1.336 million. The cost avoidance would therefore be reduced to \$1.507 million.

CHAPTER 3

ECONOMIC IMPACT OF THE PROPOSED CLOSURE

Closing Kincheloe would further depress the economy in the eastern part of Michigan's Upper Peninsula and trigger an undeterminable, but possibly considerable, amount of federally funded aid to affected communities and individuals.

Although the full extent and amount of such aid cannot currently be determined with reasonable accuracy, we were able to estimate the costs in several instances where there was sufficient data. The estimates made were for impact aid to school districts (\$2,629,000) and for unemployment compensation (\$2,534,000) and food stamps (\$186,000) for affected Kincheloe employees. These represent a portion of the costs of Federal assistance programs that might be available to the eligible communities and individuals.

STUDIES OF ECONOMIC IMPACT

Two reports discuss the economic impact Kincheloe's closure would have on the eastern part of Michigan's Upper Peninsula. One is the draft of the Air Force "Environmental Impact Statement," prepared under contract by a private consulting firm. The other is the "Kincheloe Impact Special Study," prepared by the staff at Lake Superior State College, Sault Sainte Marie, at the direction of the Kincheloe Area Economic Committee.

Both reports address the impact of Kincheloe's closure on employment, business, tax revenues, housing, population, and other indicators of economic activity. Their data is not completely comparable because the Kincheloe committee report projects economic impact in Chippewa, Luce, and MacKinac Counties, while the Air Force report covers only Chippewa and MacKinac Counties. However, this difference is insignificant because, as the Kincheloe committee reported, 95 percent of the base closure economic impact would be in Chippewa County. In substantiation of that estimate, the Air Force reported that 10,280 of Chippewa County's 35,330 population were military and civilian employees or dependents. MacKinac County had 130 Kincheloe employees or dependents of its 10,150 population.

Both reports concluded that closing Kincheloe would drastically affect the local economy. For example:

--Air Force estimates the unemployment rate would rise from a 1975 average of 17.6 percent to 38.7 percent. Kincheloe committee predicts the rise would go from 18.5 to 28.9 percent.

--Air Force predicts an increase in the housing vacancy rate from an existing 20.7 percent to 27.5 percent. Kincheloe committee estimates a postclosure vacancy rate between 25 and 50 percent and as much as a 50-percent drop in real estate values.

--Air Force projects a business loss of \$45.9 million annually. Kincheloe committee estimates the loss at \$40.7 million annually.

In view of the similar nature and results of the two reports, we verified only selected input data, such as the Air Force's estimated employment figures. Since we found no major discrepancies, we accepted the conclusion of both reports that closing Kincheloe would further depress the local economy.

FEDERALLY FUNDED ASSISTANCE

Many non-DOD Federal agency programs aid affected employees and communities if a DOD installation closes. Some programs help communities organize, plan, and carry out projects to benefit displaced workers, affected businesses, and other community interests. Other programs provide direct, individual aid.

The President's Economic Adjustment Committee helps communities receive this Federal assistance and coordinates with the agencies to assure that aid is responsive and effective.

The Federal response in the wake of a base closure might involve expenditures for such purposes as

- establishing a local development organization,
- developing a regional development plan to attract private investment,
- training unemployed persons to fill existing or new jobs,
- converting DOD facilities for civilian use, and
- providing loans to build and equip plants for new industry.

We cannot estimate total Federal costs because specific information on the types and extent of aid to be requested and provided is not currently available. However, data did exist to estimate the costs of impact aid to school districts, and unemployment compensation and food stamps for affected Kincheloe employees. These estimates do not include those individuals who are not Kincheloe employees yet who could be affected by the economic chain reaction.

Our estimate of school impact aid is based on data from the Eastern Upper Peninsula Intermediate School District; unemployment compensation is based on data from the Michigan Employment Security Commission; food stamp estimate is based on data from the Michigan Department of Social Services. Our estimates of employees eligible for unemployment compensation and food stamps are based on the same considerations we used in estimating civilian movement, placement, and severance costs. (See p. 8.)

School impact aid

School districts losing enrollment because of a closure can receive Federal assistance under section 3(e) of Public Law 81-874, as amended. The Education Amendments of 1974, Public Law 93-380, and revised section 3(e) of Public Law 81-874, effective July 1, 1975, provide that

--when any school district receiving Federal impact funds loses 10 percent or more of its eligible students from the prior fiscal year and

--when this decrease is largely due to cessation or decrease in Federal activity in the area,

that district will get financial aid for that fiscal year and any other of the 3 succeeding fiscal years in an amount of no less than 90 percent of the amount to which it was entitled in the preceding fiscal year.

If Kincheloe is closed, four school districts would lose enrollment of 10 percent or more. Based on estimated pupil losses, payment to the four districts could total about \$2.629 million during the 3 years after base closure.

Unemployment compensation

Unemployment compensation due to a closure is a Federal Government cost because the State is reimbursed for benefits paid to former Federal employees. We estimated that

\$2.584 million in unemployment benefits would be paid to about 300 civilian employees, those either severed or retired. Our estimate assumes that each employee has four dependents and that payment would continue for the full 65-week eligibility period.

Food stamps

We estimated \$186,000 in Federal funds would be required for 155 civilian employees expected to be eligible for food stamps. We assumed an average annual cost of \$1,200 per employee and eligibility periods varying from 6 months to 3 years.