

GAO

Testimony

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BASE REALIGNMENTS AND CLOSURES

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON MILITARY INSTALLATIONS
AND FACILITIES
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES



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Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss our ongoing evaluation of the methodology, findings, and recommendations of the Defense Secretary's Commission on Base Realignment and Closure. We are doing this work at the request of the Chairmen and Ranking Minority Members of the House and Senate Committees on Armed Services.

We selected a sample of bases for our analysis--i.e. the eight bases that represent almost 85 percent of the Commission's estimated cost savings and one Navy base so we would have coverage across all military departments. These installations are Pease Air Force Base, New Hampshire; Fort Dix, New Jersey; Fort Sheridan, Illinois; Chanute Air Force Base Illinois; the Presidio of San Francisco, California; George Air Force Base, California; Mather Air Force Base, California; Norton Air Force Base, California; and the Hunters Point Naval Station, California.

To date we have performed work at the Department of Defense (DOD), the Commission, all bases in our sample and other selected bases, some major military commands, and some federal and local government agencies. We still have much work to do; therefore, we can provide only preliminary observations today.

Before presenting our observations, let me briefly describe the Commission's process. It used a two-phased approach to evaluate bases for realignment and closure. The phase I analyses focused on determining the military value of a group of bases and each base's capacity to absorb additional missions and forces. The Commission obtained a great deal of pertinent information from the military services. We were told the Commission then worked with the services to identify and rank bases warranting further review. The phase II analyses focused on assessing the cost and savings of base realignment and closure options. These phases are discussed in the attachment.

PRELIMINARY OBSERVATIONS ON THE COMMISSION'S WORK

The Commission and its staff have clearly accomplished difficult and complex work in a limited time frame. Further, its approach seems generally consistent with its charter. We do, however, have some preliminary observations on the Commission's work. These relate to (1) the appropriateness of military value evaluations, (2) savings being dependent on personnel reductions, (3) the soundness of the model used to project costs and savings, (4) the exclusion of certain costs from the analyses, and (5) the completeness and accuracy of some base-specific data.

Evaluation of Military Value

The Commission's emphasis on military value as the basic criterion for assessing the base structure is appropriate and represents an important contribution as to how base closure decisions are approached. We believe this approach allows for a realistic and in-depth analysis of the military base structure. For example, considering a base's missions and functions is a more useful approach than, for example, merely costing out closure of bases that have appeared on prior closure lists. Also, the Commission's efforts to enhance mission efficiency by realigning similar forces at a base has the potential to enhance readiness and provide for better command, control, and mobilization for future contingencies. On the other hand, there are differences of opinion on the Commission's assessment of military value at certain bases. I will discuss some of these differences later in my statement.

Savings Highly Dependent
on Personnel Reductions

The Commission estimated that its base realignment and closure recommendations, when implemented, should lead to an annual savings of \$694 million. It is important to recognize that much of these estimated savings result from large reductions in military and civilian personnel at closing bases. For example, the Commission estimates that closing the five Air Force bases included in our sample would result in annual savings of approximately \$381 million. About \$320 million (84 percent) of these savings result from reducing about 9,600 personnel. Overall, it is estimated that the Commission's recommendations would result in eliminating 7,748 civilian and 12,889 military positions.

Although the savings from these eliminated positions at the base level would be real, DOD would not actually achieve the savings unless there is a corresponding reduction in authorized personnel ceilings. We think it is important that the Armed Services Committees work with DOD to decide whether military end-strength should be reduced or positions should be reallocated to fill other needs or activities.

Cost Model Conceptually
Sound But Contains Errors

Our initial evaluation of the Commission's cost model indicates that it is a reasonable method for estimating closure costs. It provided the Commission with a consistent conceptual framework for its cost analyses and it was sufficiently flexible to accommodate differences among the services and types of bases. However, under the tight deadlines facing the Commission, the model was not carefully checked for errors in its formulas or in the manner in which various closures were analyzed. We found a number of errors in the model's worksheets. For example, the Air Force version of

the model overstates the construction costs at gaining bases in the first year and understates the costs in the following 4 years--this may result in greater savings for some closed or realigned bases. In the Army's version of the model, some of the costs excluded are costs for the support of reserve units remaining on selected bases and for family housing that will remain open. These exclusions may result in less savings than estimated.

These errors may not be of sufficient magnitude to affect the payback period. We are continuing our review of the Air Force and Army models, but we have not yet begun our analysis of the Navy model. Our work will also include a verification of the standard factors (e.g., salaries and overhead) used in the models.

In addition, model computations include a market value for resale of the bases. Available data suggest that for many bases, the Commission underestimated the fair market value of the installations. At the same time, it should be recognized that laws governing the disposal of surplus property allow the bases to be made available for other government or social purposes, in some cases at less than fair market value. Therefore, the amount of revenue DOD will realize is uncertain.

Analyses Excluded Certain Costs

The Commission's methodology excluded some potential closure or realignment costs. Some of these costs could be significant.

The Commission was required to consider the economic impact on the community where a base recommended for realignment or closure is located. However, the Commission decided not to consider certain DOD and other federal government costs associated with the socio-economic impact of the closures in calculating the savings that would result from realigning or closing a particular base, since it believed these costs would be minimal. Such costs include

expenditures for welfare, unemployment compensation, community adjustment assistance, and mortgage assistance provided under the homeowners assistance program. These costs could be significant where large number of transfers and personnel reductions associated with base realignment and closures occur. We also are concerned about the estimates of economic impact on communities-- they may be greater than the "minimal" or "moderate" Commission assessments.

Other potential costs such as the transfer of operating and maintenance costs to other federal agencies were not considered. For example, if the Presidio is closed, most of the land and buildings would be transferred to the National Park Service. The Park Service estimates that its annual Presidio operating and maintenance costs will be \$17 to \$20 million. This is in addition to what the tenants occupying Presidio facilities will pay for their own operating and maintenance expenses.

Still other costs such as environmental clean-up costs were not considered. The Commission decided not to consider the cost of environmental clean-up in deciding how much savings would result from realigning or closing a particular base, since DOD is ultimately responsible for cleaning up environmental problems at its bases. It did, however, consider environmental mitigation costs, such as costs to increase the capacity of a water or sewage treatment system at receiving bases.

Although DOD is ultimately responsible for environmental clean-up costs, the potential for accelerating clean-up because of either alternate government use of the land or sale to commercial groups could be significant. The clean-up costs at the bases will compete for limited resources nationwide for environmental clean-up.

Questions on Completeness
and Accuracy of Data

Our discussions with base personnel, major commands, and other government agencies have raised several questions about the completeness or accuracy of the data used by the Commission to make its recommendations on base realignments and closures. However, I need to again emphasize the preliminary nature of our work to date. We are developing new data daily. For example, service officials said that their estimates of construction costs at gaining bases furnished to the Commission were preliminary. They further stated that estimates obtained at the base level will likely include "wish lists" of projects, some of which will be eliminated as the estimates are reviewed throughout the chain of command.

Fort Dix

The Commission estimated that the realignment of Fort Dix and related moves will save \$84.5 million annually. These estimated savings may not fully reflect costs of maintaining the base in semi-active status. There may be underestimated costs for supporting reserve components and maintaining retained facilities. Further, a June 29, 1988, draft of an Army Audit Agency report stated that training could be increased at Fort Dix and Fort Jackson to more fully utilize their excess barrack spaces.¹ The draft report noted that other U.S. Army training bases have substandard facilities. We do not know whether the Commission considered the draft Army Audit Agency report; therefore, we still need to determine exactly what data and trade-offs were considered.

¹The Army Audit Agency's final report (Number 89-204) was issued on January 23, 1989.

Presidio

Our initial evaluation of the recommended closure of the Presidio in San Francisco indicates some data used may not be accurate. For example, the amount of additional Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) costs, if any, from the closing of the Presidio has to be determined. The Army's Health Services Command estimated \$18 to \$22 million in increased CHAMPUS costs in the San Francisco bay area, assuming that retirees and their dependents currently serviced by Letterman Hospital, if closed, would then be covered by CHAMPUS. Actually, some patients will use other military hospitals in the bay area. In addition, the government would incur increased medicare costs for retirees 65 years or older. On the other hand, the Commission estimated that closing the Presidio would actually reduce CHAMPUS costs overall by about \$8 million because the medical personnel from Letterman Army Hospital would be distributed throughout the Army. However, the Commission did not include the \$8 million in determining overall savings from closing the Presidio. We have not yet verified these figures.

Also, there is an ongoing study by the Assistant Secretary of Defense for Health Affairs of medical care for the San Francisco bay area. Closing Letterman Hospital is one of several options being considered, but the study will not be completed until September 1989. Whether the Commission's recommendation and the Assistant Secretary's would be compatible cannot yet be determined.

As I mentioned earlier, most of the Presidio would transfer to the National Park Service and only 36.5 acres is potentially saleable, and then only after the City of San Francisco exercises or waives a 10-year option to use the land. Also, although the Navy has not formally expressed interest yet, it could take over the Presidio housing for Navy personnel currently living in commercial housing

and receiving variable housing allowances. The Navy would likely also keep the Presidio's community support facilities, including a new commissary (about 80 percent complete) and a new child-care center.

The key to savings from closing the Presidio is the decision on Letterman Hospital and Letterman Army Research Center, since they account for most of the base operating costs. It is estimated that Letterman Hospital needs about \$42 million in seismic upgrades to meet today's standards. However, the hospital is 20 years old and meets the 1969 standards, as do many private hospitals in the bay area. The Research Center is much newer and facilities would have to be built to house its mission elsewhere.

Conversely, however, these facilities may be appropriate for use by a university, and the Park Service could make them available for lease.

These are all important issues that need further analysis.

Fort Sheridan

The Commission estimated that the partial closure of Fort Sheridan will save \$40.8 million annually. Much of these savings arise from the projected elimination of 746 personnel. However, base officials estimate that only 342 personnel will be reduced since personnel will be required to support the reserve components that remain on base and other reserve centers in the mid-west. Further, Fourth Army officials said that its move to Fort Benjamin Harrison will reduce its access to reserve components. About 53 percent of the Fourth Army's reserve component units are located within 2 hours driving time of Fort Sheridan.

Chanute Air Force Base

The Commission found that Chanute Air Force Base, a technical training center for the Air Training Command, faced a shortage of facilities including training, administration, warehousing and other facilities. However, base officials reported that no current shortage exists. The Commission also reported that the closure will have a moderate impact on local employment. Local officials strongly disagree. They believe the regional impact will be significant, affecting the cost of utilities and other services and the decisions of businesses to locate in the region.

George Air Force Base

The Commission reported excessive distances to training ranges as a key reason for recommending the closure of George Air Force Base. However, base officials believe that the flying time to the more distant training range, which is about 25 percent of all their sorties, provides their pilots with additional training opportunities. In contrast, Air Force headquarters officials stated that the increased flying time far exceeds what is desirable for training purposes.

The Commission also said its decision to close George was based on congested air space. Base officials interpreted this to mean that their operations interfered with commercial travel and they disagreed. Federal Aviation Agency officials concurred with the base officials' view. However, according to Tactical Air Command and Air Force headquarters officials, the congestion referred to the base's ability to accomplish its mission.

There were also several concerns expressed about Mountain Home Air Force Base's capability to receive the missions from George Air Force Base. We were told by Mountain Home officials that ranges and airspace will need to be substantially expanded and upgraded to

develop capability for supersonic flying, air-to-air and air-to-ground firings, and the dropping of live ordnance. Air Force headquarters officials said that already planned upgrades will, with minor modifications, meet the needs of the units being transferred.

The Commission estimated \$36 million for construction at Mountain Home Air Force Base, while the base estimated \$101 million. Tactical Air Command estimated costs at \$82 million, but said that this figure would be refined downward. Costs for family housing and range improvements would be in addition to these estimates.

Mather Air Force Base

For Mather Air Force Base, the cost estimates developed by the Commission show that \$153 million would be needed for military construction at Beale Air Force Base to accommodate the movement of forces from Mather. However, Commission estimates do not allow for construction at McClellan Air Force Base, which would also receive forces from Mather. These construction costs have been estimated at \$40 million.

Closure of the Mather Air Force Base hospital could cause some problems for the military retirees and their dependents in the area who may then have to rely on higher-cost private sources. The Commission's cost model omitted eligible dependents in its calculation of increased CHAMPUS costs from closing Mather's hospital. This increases costs significantly. However, whether there would also be a CHAMPUS offset elsewhere, as the Commission stated for the Presidio, is unclear. We were told that Mather medical billets would be eliminated from the force structure rather than be disbursed elsewhere. A proposal is also being considered that would transfer the hospital to the Veterans Administration under a joint veterans/active duty use arrangement.

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We are continuing our work and will issue a final report, now estimated for this fall.

This concludes my testimony. We would be pleased to answer to questions.

PROCESS USED BY THE COMMISSION

The Commission used a two-phased approach to evaluate bases for realignment and closure. The phase I analyses focused on determining the military value of bases and excess capacity within a mission category. The phase II analyses focused on assessing the costs and savings of base realignment and closure options.

PHASE I ANALYSIS

Phase I sought to reduce the number of installations under consideration. The Commission considered the military value of an installation in terms of how well it met the mission-related needs of its units or activities. In this phase, the Commission provided the services with guidance and tasked them to

- identify all bases and assign each to a mission category, such as operating troops, administrative headquarters, and tactical air operations;
- identify physical attributes appropriate for evaluating the military value for each category, such as survivability or weather constraints;
- assign a weight to each attribute, reflecting the value of the attribute to the mission category;
- assess each base against its ability to meet the requirement associated with each attribute; and

-- perform an analysis of the aggregate capacity by mission category and the capability of each base to absorb additional forces.

We were told that the Commission then worked with the services to rank and identify bases warranting further review in phase II.

The following is an illustration of the process. In the tactical air base category, considerable weight was attached to base location, training range proximity, and maneuverability. Other lower-weighted factors examined included access to low-level routes, weapons facilities, the availability and configuration of runways, airfield pavements, and buildings; the quality of facilities; and the availability of housing, medical, and recreational facilities. The Air Force rated the factors and applied the weights to develop an aggregate score for each base. The bases were then arrayed from high to low military value based on these aggregated scores. In the tactical air category, the Commission identified that 10 out of 19 bases had the capacity to absorb an additional squadron-size flying mission. One base, identified by the ranking as lowest in military value, was recommended for phase II analysis.

PHASE II ANALYSIS

In Phase II, the Commission asked the services for options for realigning affected activities. The Commission then analyzed potential closure and realignment options to determine the best alternative. For example, an analysis was performed to see which realignments could potentially increase military effectiveness. In addition, major adverse environmental or socio-economic impacts were examined. Finally, a "back of the envelope" cost calculation

was done to ensure that the closure or realignment would pay back within 10 years.

The remaining realignment and closure candidates were then more thoroughly reviewed using a cost model developed for the Commission by the Logistics Management Institute. This more comprehensive analysis of costs and savings sought to identify whether costs would be paid back within 6 years of closures.

The model, known as the Cost of Base Realignment Actions (COBRA) model, created a Lotus spreadsheet that automated the cost and savings calculation for each proposed realignment plan. Each service used its own customized version of the model that allowed use of service-specific standard factors for average salaries and allowances, as well as service-specific formulas for calculating overhead and maintenance cost. Each realignment option was then analyzed using information specific to the proposed closing and gaining bases.

The model accounted for one-time costs from the closure or realignment, including moving expenses and new construction at the receiving bases, and allowed for one-time revenue if the land was sold. Additionally, the model computed the permanent annual savings from reducing military and civilian personnel levels and from any changes in base maintenance and overhead expenses resulting from the move. The final calculations of the COBRA model inflated 20 years of annual costs and savings by a constant 3 percent inflation rate and then discounted the cash flows to reflect the closure actions' budget impacts in constant fiscal year 1988 dollars. Under the Commission's charter, one of the criteria the Commission used for recommending base closure or realignment

was whether the cost savings over a 6-year period would exceed the amount expended to close or realign a base.²

According to the Commission, efforts were made to review the reasonableness of data provided by the services. The Commission examined and refined the relative weighing of factors and measurements used in the military value analysis, as well as information pertaining to capacity and enhancement analysis and cost model formulation. Base-specific data, obtained from DOD or major commands, was reviewed for reasonableness within the service headquarters and by Commission staff. Furthermore, Commission staff visited a limited number of bases to check the accuracy of data. However, to avoid premature disclosure of Commission recommendations, few of the bases targeted for closure were visited.

Our preliminary review indicates that the process provided a basis for comparing realignment and closure candidates. The Commission's final recommendations incorporated the judgment of the commissioners.

We have identified differing evaluations of military value and cost/savings at the bases in our sampling. Historically, it has been difficult to justify base closings because base-specific costs were inexact. In many cases, estimates were imprecise until actual planning for the closing began.

²According to Office of the Secretary of Defense officials, the 6-year payback period was used because it represented the average payback period that was expected from the 22 base "illustrative" list that the Secretary of Defense identified in 1985. The Commission believes that payback within 6 years is not mandatory and that if current data now show a longer payback period for any one base, that would not preclude the Commission from identifying that base for closure or realignment.

Commission and DOD officials acknowledged that data and individual cost factors could vary. However, they emphasized that it was the Commission's goal to (1) apply military value as the primary criterion and determine if, in the categories examined, there was excess capacity, (2) perform a comparative analysis among bases in each category, and (3) recommend a list of bases for closure or realignment. This, by necessity, requires informed, subjective assessments. They also pointed to the need to consider whether the list as a whole is reasonable, rather than discussing specific bases.