United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Readiness, Committee on Armed Services, House of Representatives

For Release on Delivery
Expected at 1:00 p.m. EST
Thursday, March 25, 2004

MILITARY BASE CLOSURES

Observations on Preparations for the Upcoming Base Realignment and Closure Round

Statement of Barry W. Holman, Director
Defense Capabilities and Management

March 25, 2004

MILITARY BASE CLOSURES

Observations on Preparations for the Upcoming Base Realignment and Closure Round

GAO Accountability • Integrity • Reliability

Highlights

Highlights of GAO-04-558T, a report to Subcommittee on Readiness, Committee on Armed Services, House of Representatives

Why GAO Did This Study

The National Defense Authorization Act for Fiscal Year 2002 authorized an additional Base Realignment and Closure (BRAC) round in 2005. The legislation requires the Department of Defense (DOD) to provide Congress in early 2004 with a report that addresses excess infrastructure and certifies that an additional BRAC round is needed and that annual net savings will be realized by each military department not later than fiscal year 2011. GAO is required to assess this information as well as the selection criteria for the 2005 round and report to Congress within 60 days of DOD's submission. The legislation also retains the requirement for GAO to assess the BRAC 2005 decision-making process and resulting recommendations.

This testimony addresses (1) the BRAC process from a historical perspective, (2) GAO's role in the process, and (3) GAO's initial observations on key issues DOD is required to address in preparation for the 2005 round. Because DOD had not submitted its required 2004 report at the time we completed this statement, this testimony relies on our prior work that addressed issues associated with excess capacity and BRAC savings.

www.gao.gov/cgi-bin/getrpt?GAO-04-558T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman (202) 512-8412 or holmanb@gao.gov.

What GAO Found

GAO's work in examining lessons learned from prior BRAC rounds found that the prior legislation and the framework it outlined served the process well, and that it should provide a useful framework for a future round. Furthermore, the legislation and its implementation provided for checks and balances to ensure the integrity of the process.

GAO has played a long-standing role as an independent and objective observer of the BRAC process. GAO has operated in a real-time setting and has had access to significant portions of the process as it has evolved, thus affording DOD an early opportunity to address any concerns GAO might identify. GAO's role in the 2005 round remains the same, and GAO has been observing the process since DOD began work on the 2005 round. Timely access to DOD data is key to fulfilling GAO's role.

GAO's initial observations on key issues DOD is required to address in its 2004 report are as follows:

- The selection criteria for the 2005 round are basically sound and provide a good framework for assessing alternatives. Nevertheless, GAO provided DOD with comments on the draft criteria that focused on the need for clarification of how DOD intends to consider total costs to DOD and other federal agencies and environmental costs in its analyses. The department has indicated that it would be issuing clarifying guidance.

- DOD plans to estimate its excess capacity using a methodology that it used in 1998 for similar purposes. While this methodology provides a rough indication of excess capacity for selected functional areas, it has a number of limitations that create imprecision when trying to project a total amount of excess capacity across DOD. A more complete assessment of capacity and the potential to reduce it must await the results of the current BRAC analyses being conducted by DOD during the 2005 round.

- DOD financial data suggest that, assuming conditions similar to those in the 1993 and 1995 BRAC rounds, each military department could achieve annual net savings by 2011. While we believe that the potential exists for significant savings to result from the 2005 round, there are simply too many unknowns at this time to say conclusively to what extent annual net savings will be realized by 2011. For example, in 2005 DOD is placing increased emphasis on jointness and transformation and is likely to use BRAC to incorporate any force redeployments from overseas locations that may result from ongoing overseas basing reassessments. This suggests a need for caution in projecting the timing and amount of savings from a new BRAC round.

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity today to provide you with an overview of our work involving the Department of Defense's (DOD) base realignment and closure (BRAC) process. The National Defense Authorization Act for Fiscal Year 2002[1] extended the authority of the Defense Base Closure and Realignment Act of 1990,[2] with some modifications, to authorize an additional BRAC round in 2005. The legislation required, among other things, that DOD provide the Congress in 2004, as part of its fiscal year 2005 budget justification documents, a discussion of categories of excess infrastructure and infrastructure capacity, an economic analysis of the effects of BRAC, and a certification that there is a need for an additional BRAC round in 2005 and that annual net savings will be realized by each military department not later than fiscal year 2011. If the required certifications are provided, GAO is required to evaluate DOD's submission and provide a report to Congress with its assessment within 60 days. Finally, the legislation also retains the requirement for GAO's involvement in assessing the 2005 BRAC decision-making process by requiring that GAO provide the BRAC Commission and congressional defense committees a detailed analysis of the Secretary of Defense's recommendations and selection process for the 2005 round, as we have done during the previous four BRAC rounds.

My testimony today addresses (1) the BRAC process from a historical perspective, (2) GAO's role in the process, and (3) key issues DOD is required to report on in preparation for the 2005 round. In preparing this testimony, we relied on our prior work related to assessing BRAC decision-making processes and the implementation of the previous four rounds. Because DOD had not submitted its required 2004 report at the time we completed this statement, this testimony relies on our prior work that addressed issues associated with excess capacity, BRAC savings, and economic impact. Any comments regarding the 2005 round will of necessity be somewhat limited because of nondisclosure requirements in place as DOD works toward the issuance of proposed realignment and closure recommendations in May 2005. Our work was performed in accordance with generally accepted government auditing standards.

[1] P.L. 107-107, Title XXX, (Dec. 28, 2001).

[2] P.L. 101-510, Title XXIX, (Nov. 5, 1990).

Summary

Closing unneeded defense facilities has historically been difficult because of public concern about the economic effects of closures on communities and the perceived lack of impartiality in the decision-making process. However, with the enactment in 1988 of legislation[3] that supported the tasking of a special commission chartered by the Secretary of Defense to identify bases for realignment and closure, relief was provided from certain statutory provisions that had hindered previous DOD base closure and realignment efforts. Congress later passed the Defense Base Closure and Realignment Act of 1990, which created an independent commission and authorized three BRAC rounds in 1991, 1993, and 1995. As we observed in our previous report regarding lessons learned from prior BRAC rounds,[4] we found general agreement that the legislation and the framework it created served the process well, and that the legislation should provide a useful framework for a future round. Furthermore, the legislation and its implementation provide for checks and balances to keep political influences to a minimum, but the success of these provisions requires that all participants in the process adhere to the rules and procedures.

GAO has played a long-standing role in the BRAC process. First, as requested by congressional committees (1988 BRAC round) or mandated by law since 1990, we have served as an independent and objective observer of the BRAC process and have assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations in each of the four prior rounds. To make informed and timely assessments, we have operated in a real-time setting since the 1991 round and have had access to significant portions of the process as it has evolved, thus affording the department an opportunity to address any concerns we raised on a timely basis. Our role in the BRAC 2005 round is similar, and we have been observing the process since DOD began work on the 2005 round.

Because DOD had not submitted its required 2004 report at the time we completed this statement, our observations on excess capacity, certification of annual net savings by 2011, and economic impact are based on our prior work. Since DOD has published its selection criteria for the 2005 round, I can provide you with our observations in that area:

[3] P.L. 100-526, Title II, (Oct. 24, 1988).

[4] See U.S. General Accounting Office, *Military Bases: Lessons Learned From Prior Base Closure Rounds*, GAO/NSIAD-97-151 (Washington, D.C.: July 25, 1997).

- The selection criteria essentially follow a framework that is similar to that employed in prior BRAC rounds, with more specificity in selected areas—especially in those that speak to military value. In this regard, the criteria give priority to military value and incorporate such factors as joint warfighting, training, readiness, and the ability to accommodate contingency and mobilization requirements, as is called for in the fiscal year 2002 legislation.[5] Although we believe the criteria are basically sound and provide a good framework for assessing alternatives, we did provide the department with some comments on the criteria while they were in draft form. Those comments focused on the need for clarification of how DOD intends to consider (1) total costs to DOD and other federal agencies and (2) environmental costs in its analyses. The department subsequently indicated that it will be issuing clarifying guidance on these topics.

- To give some indication of excess capacity, DOD officials indicated that they would build on the approach they used in a 1998 report[6] to estimate excess base capacity and address other BRAC issues. As we reported in 1998,[7] DOD's capacity analysis provided a rough indication that excess base capacity existed, but the methodology used to identify excess capacity had a number of limitations, particularly in trying to project a total amount of excess capacity across DOD. For example, the methodology did not consider to what extent excess capacity might have existed in 1989, the baseline year used in that analysis. Moreover, a similar analysis completed today would not reflect the results of efforts currently underway in BRAC to look at many functions on a cross-service basis. A more complete assessment of capacity and the potential to reduce it must await the results of the current BRAC analyses being conducted by DOD.

- DOD projects that it is now realizing approximately $7 billion yearly in net savings from prior BRAC rounds. As to savings from the 2005 BRAC process, DOD financial data suggest that, assuming conditions similar

[5] P.L. 107-107, section 3002 (Dec. 28, 2001).

[6] The Report of the Department of Defense on Base Realignment and Closure, April 1998. Section 2824 of Public Law 105-85 required the Secretary of Defense to submit a report to the congressional defense committees on the costs and savings attributable to the rounds of base realignments and closures under special legislative authorities between 1988 and 1995 and on the need, if any, for additional rounds.

[7] See U.S. General Accounting Office, *Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure*, GAO/NSIAD-99-17 (Washington, D.C.: Nov. 13, 1998).

to those of the 1993 and 1995 round, annual net savings for each of the military departments for the 2005 round could be realized by 2011. That is, by 2011 savings could exceed closure-related costs for that year. At the same time, our analysis of 1995 round data indicates that the point at which cumulative net savings are realized would likely occur later.[8] Our prior assessments have consistently confirmed that the prior BRAC rounds have generated substantial savings—primarily in the form of future cost avoidances—for the department. However, we have also noted that these savings estimates have been imprecise for a variety of reasons, including weaknesses in DOD's financial management systems, the exclusion of BRAC-related costs incurred by other agencies, and inadequate periodic updating of savings estimates.

While we certainly believe that the potential exists for significant savings and efficiencies to result from the 2005 BRAC round, we are not in a position to say conclusively at this point to what extent DOD will realize annual net savings by 2011. There simply are too many unknowns at this time, such as the specific timing of individual closure or realignment actions that affect savings estimates, the implementation costs that may be required, and the extent to which transformation initiatives or potential redeployment to the United States of some forces currently based overseas might impact savings. At the same time, we believe it is critically important that the department act to implement our previous recommendation to improve its capabilities for estimating and updating estimates of savings from BRAC decisions. If the department does not take steps to improve its estimation of savings in the future, then previously existing questions about the reliability, accuracy, and completeness of DOD's savings estimates will likely continue.

- As to economic impact, our work has shown that while some communities surrounding closed bases are faring better than others, most are continuing to recover from the initial economic impact of base closures, allowing for some negative impact from the economic downturn in recent years. The short-term effects from base closures can be very traumatic, but we have found that several factors, such as the strength of the national and regional economies, the diversity of the

[8] According to DOD officials, cumulative net savings represent the total accrued savings over time, minus the cumulative costs incurred over that same time period. Annual net savings, on the other hand, are the savings accrued in a given year compared with the costs incurred in that same year.

local economy, and successful redevelopment of base property play a role in determining the long-term impact of the closure process. Although the successful redevelopment of base property plays a role in the process, broader regional economic growth may also be key to economic recovery.

Background

The National Defense Authorization Act for Fiscal Year 2002 extended the authority of the Defense Base Closure and Realignment Act of 1990, with some modifications, to authorize an additional BRAC round in 2005. The legislation also required that DOD provide Congress in 2004, as part of its budget justification documents, a 20-year force structure plan, a worldwide infrastructure inventory, a description of the infrastructure necessary to support the force structure plan, a discussion of categories of excess infrastructure and infrastructure capacity, an economic analysis of the effect of BRAC on reducing excess infrastructure, and a certification that there is a need for BRAC in 2005 and that annual net savings will be realized by each military department not later than fiscal year 2011. The legislation also stipulated that if the certification is provided in DOD's submission to Congress, GAO is to prepare an evaluation of the force structure plan, the infrastructure inventory, the final selection criteria, and the need for an additional BRAC round, and to report to Congress not later than 60 days after the force structure plan and the infrastructure inventory are submitted to Congress.

The 2002 legislation also required the Secretary of Defense to publish in the Federal Register the selection criteria proposed for use in the BRAC 2005 round and to provide an opportunity for public comment. The proposed selection criteria were published on December 23, 2003, with a public comment period ending January 30, 2004. The final criteria were published on February 12, 2004.

Historical Context of BRAC

Closing unneeded defense facilities has historically been difficult because of public concern about the economic effects of closures on communities and the perceived lack of impartiality in the decision-making process. Legislative restrictions effectively precluded bases from being closed between 1977 and 1988. However, legislation enacted in 1988[9] supported the tasking of a special commission chartered by the Secretary of Defense

[9] P.L. 100-526, Title II, (Oct. 24, 1988).

to identify bases for realignment and closure and provided relief from certain statutory provisions that had hindered DOD's previous efforts. With this legislation, a base realignment and closure round was initiated in 1988.

Congress later passed the Defense Base Closure and Realignment Act of 1990, which created an independent commission and authorized three BRAC rounds in 1991, 1993, and 1995. The four commissions generated 499 recommendations—97 major closures, and hundreds of smaller base realignments, closures, and other actions.[10] However, DOD recognized at the time it was completing its recommendations for the 1995 BRAC round that excess infrastructure would remain after that round and that additional closures and realignments would be needed in the future. Subsequent Defense Science Board and Quadrennial Defense Review studies, and others, echoed the need for one or more future additional BRAC rounds, but congressional action to authorize a future BRAC round did not occur for several years, in part because of concerns over how some decisions were made in the 1995 BRAC round. Ultimately, the National Defense Authorization Act for Fiscal Year 2002 extended the authority of the Defense Base Closure and Realignment Act of 1990, authorizing another round of base realignments and closures in 2005.

Some key requirements mandated by the 1990 act or procedures adopted by DOD in implementing it to ensure the fairness and objectivity of the base closing process include:

- All installations must be compared equally against selection criteria and a current force structure plan developed by the Secretary of Defense.

- Decisions to close military installations with authorization for at least 300 civilian personnel must be made under the BRAC process. Decisions to realign military installations authorized for at least 300 civilian personnel that involve a reduction of more than 1,000, or 50

[10] The number of recommendations may vary, depending on how they are categorized. Recommendations may include closures, realignments, disestablishments, relocations, and redirections. In a closure, all missions carried out at a base either cease or relocate, while in a realignment, a base remains open but loses and sometimes gains missions. "Disestablishments" and "relocations" refer to missions; those disestablished cease operations, while those relocated are moved to another base. "Redirections" refer to cases in which a BRAC commission changes the recommendation of a previous commission.

percent or more of the civilian personnel authorized, also must undergo the BRAC process.

- Selection criteria for identifying candidates for closure and realignment must be made available for public comment before being finalized.

- All components must use specific models for assessing (1) the cost and savings associated with BRAC actions and (2) the potential economic impact on communities affected by those actions.

- Information used in the BRAC decision-making process must be certified—that is, certified as accurate and complete to the best of the originator's knowledge and belief. This requirement was designed to overcome concerns about the consistency and reliability of data used in the process.

- An independent commission is required to review DOD's proposed closures and realignments and to finalize a list of proposed closures and realignments to be presented to the President and, subject to the President's approval, to Congress.

- The BRAC Commission is required to hold public hearings.

- The BRAC process imposes specific time frames for completing specific portions of the process (see app. I for time frames related to the 2005 BRAC round).

- The President and Congress are required to accept or reject the Commission's recommendations in their entirety.

- In addition to GAO's role in monitoring the BRAC process, service audit agencies and DOD Inspector General (IG) personnel are extensively involved in auditing the process to better ensure the accuracy of data used in decision-making and enhance the overall integrity of the process.

Our work in examining lessons learned from prior BRAC rounds found general agreement that the prior legislation and the framework it outlined served the process well, and general agreement that it should provide a useful framework for a future round.[11] That is not to say that the previous

[11] See GAO/NSIAD-97-151.

process was perfect or entirely devoid of concerns over the role of politics in the process. As we have previously noted, we recognize that no public policy process, especially none as open as BRAC, can be completely removed from the U.S. political system. However, the elements of the process noted above provide several checks and balances to keep political influences to a minimum. That said, the success of these provisions requires that all participants of the process adhere to the rules and procedures.

GAO Has Had a Long-standing Role in the BRAC Process

GAO has played a long-standing role in the BRAC process. As requested by congressional committees (1988 BRAC round) or mandated by law since 1990, we have served as an independent and objective observer of the BRAC process and have assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations in each of the four prior rounds. To make informed and timely assessments, we have consistently operated in a real-time setting since the 1991 BRAC round and have had access to significant portions of the process as it has evolved, thus affording the department an opportunity to address any concerns we raised on a timely basis. By mandate, our role in the BRAC 2005 round remains the same, and we have been observing the process since DOD began work on the 2005 round. Finally, I also want to recognize the important role played by the DOD Inspector General and the military services' audit agencies in the BRAC process.

GAO has been called upon to examine various issues associated with prior BRAC rounds, including the one held in 1988.[12] The 1990 BRAC legislation, which governed the 1991, 1993, and 1995 rounds, specifically required that we provide the BRAC Commission and Congress a detailed analysis of the Secretary of Defense's recommendations and selection process. Legislation authorizing the 2005 BRAC round retained the requirement for a GAO review of the Secretary's recommendations and selection process, with a report to the congressional defense committees required no later than July 1, 2005, 45 days after the latest date by which the Secretary must transmit to the congressional defense committees and the BRAC Commission his recommendations for closures or realignments.

[12] At the request of the Chairmen and the Ranking Minority Members, House and Senate Committees on Armed Services, we examined the Commission's methodology, findings, and recommendations.

The tight time frame under which we have to report our findings on the department's BRAC selection process and recommendations necessitates that we have access to the BRAC decision-making processes as they are unfolding within DOD. During the past rounds, DOD and its components have granted us varying degrees of access to their processes a year or more in advance of the Secretary's public release of his recommendations for closures and realignments. This has greatly facilitated our ability to monitor the process as it was unfolding and has provided us with opportunities to address issues and potential problem areas during the process. Furthermore, it has aided our ability to complete some detailed analysis of individual recommendations in the time available after the Secretary's proposed closures and realignments were finalized and made public.

We have been observing the 2005 BRAC process since DOD's initial work began on the 2005 round. From our vantage point, we are looking to see to what extent DOD follows a clear, transparent, consistently applied process, one where we can see a logical flow between DOD's analysis and its decision-making. Although we do not attend or participate in deliberative meetings involving BRAC, we are permitted access to the minutes of these meetings and to officials involved in the process.

I also want to acknowledge the key roles played by the DOD Inspector General and service audit agencies to help ensure the accuracy of data used in BRAC decision-making. These agencies play a front-line role in checking the accuracy of data obtained in BRAC data calls, as well as verifying data entries and output pertaining to the cost and analytical models used as part of the BRAC process. They also identify and refer any errors to defense components on a real-time basis, to facilitate corrective actions. We coordinate regularly with these other audit agencies, and in selected instances we observe the work of these audit agencies in checking the data used as part of BRAC decision-making.

Another part of our role involves assessing and reporting on the status of prior BRAC recommendations. These reports provide insights into the long and tedious process of transferring unneeded base property to other federal recipients and communities for future reuse. While the actual closures and realignments of military bases in the prior rounds were completed by 2001, the processes of environmental cleanup and property transfer continue today and will most likely continue for several more years. As of September 30, 2003, DOD data show that the department has transferred over 280,000 acres of unneeded property to other users but has about 220,000 acres that have yet to be transferred. While the progress of

property transfer varies among the affected bases and is dependent upon a number of factors, our work has shown that environmental cleanup has long been a key factor in slowing the transfer process. We are currently in the process of updating our prior work on the implementation actions associated with the prior BRAC rounds.

Our key BRAC reports, which can be accessed at www.gao.gov, are listed in appendix II of this statement.

Observations on Key Issues DOD Is Required to Report on in Preparation for the 2005 Round

The legislation authorizing a BRAC round in 2005 also requires that DOD provide information on a number of BRAC-related issues in 2004, and that GAO report to Congress not later than 60 days after the department submits this information to Congress. Since DOD has published its selection criteria for the 2005 round, I can provide you with some observations in that area. We expect to complete our full assessment of other issues within 60 days of receiving DOD's report. Therefore, I can make only preliminary and general observations about some of the issues, such as excess capacity, certification of annual net savings by 2011, and economic impact.

Selection Criteria for 2005 BRAC Round Continue Sound Framework Used in Prior Rounds

The department's final selection criteria essentially follow a framework similar to that employed in prior BRAC rounds, with specificity added in selected areas in response to requirements contained in the 2002 legislation. The 2002 legislation required that DOD give priority to military value and consider (1) the impact on joint warfighting, training, and readiness; (2) the availability and condition of training areas suitable for maneuver by ground, naval, or air forces throughout diverse climates and terrains, and staging areas for use by the armed forces in homeland defense missions; and (3) the ability to accommodate contingency, mobilization, and future force requirements. The legislation also required DOD to give consideration to other factors, many of which replicated criteria used in prior BRAC rounds. Further, the legislation required DOD to consider cost impacts to other federal entities as well as to DOD in its BRAC decision-making. Additionally, the National Defense Authorization Act for Fiscal Year 2004[13] required DOD to consider surge requirements in the 2005 BRAC process. Table 1 compares the 1995 BRAC criteria with that adopted for 2005, with changes highlighted in bold.

[13] P.L. 108-136, section 2822, (Nov. 24, 2003).

Table 1: BRAC Criteria from 1995 and Those Adopted for 2005

Criteria for 1995 round	Criteria for 2005 round
Military value	Military value
1. The current and future mission requirements and the impact on operational readiness of DOD's total force	1. The current and future mission capabilities and the impact on operational readiness of the Defense Department's total force, **including the impact on joint warfighting, training, and readiness**
2. The availability and condition of land, facilities, and associated airspace at both the existing and potential receiving locations	2. The availability and condition of land, facilities, and associated airspace—**including training areas suitable for maneuver by ground, naval, or air forces throughout diversity of climate and terrain areas and staging areas for the use of the Armed Forces in homeland defense missions**—at both existing and potential receiving locations
3. The ability to accommodate contingency, mobilization, and future total force requirements at both the existing and potential receiving locations	3. The ability to accommodate contingency, mobilization, and future total force requirements at both existing and potential receiving locations **to support operations and training**
4. Cost and manpower implications	4. The cost **of operations** and the manpower implications
Return on investment	**Other considerations**
5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of completion of the closure or realignment, for the savings to exceed the costs	5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of completion of the closure or realignment, for the savings to exceed the costs
Community impacts	**6.** The economic impact on **existing** communities **in the vicinity of military installations**
6. The economic impact on communities	7. The ability of both the existing and potential receiving communities' infrastructure to support forces, missions, and personnel
7. The ability of both the existing and potential receiving communities' infrastructures to support forces, missions, and personnel	8. The environmental impact, **including the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities**
8. The environmental impact	

Source: DOD (emphasis bolding added by GAO to denote changes from 1995).

Our analysis of lessons learned from prior BRAC rounds affirmed the soundness of these basic criteria and generally endorsed their retention for the future, while recognizing the potential for improving the process by which the criteria are used in decision-making.[14] Adoption of these criteria adds an element of consistency and continuity in approach with those of the past three BRAC rounds. The full analytical sufficiency of the criteria

[14] See GAO/NSIAD-97-151.

will best be assessed through their application, as DOD completes its data collection and analysis.

Notwithstanding our endorsement of the criterion framework, on January 27, 2004, we sent a letter to DOD that identified two areas where we believed the draft selection criteria needed greater clarification in order to fully address the special considerations called for in the 2002 legislation. Specifically, we noted that the criterion related to costs and savings did not indicate the department's intention to consider potential costs to other DOD activities or federal agencies that may be affected by a proposed closure or realignment recommendation. Also, we noted that it was not clear to what extent the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities would be included in cost and savings analyses of individual BRAC recommendations. We suggested that DOD could address our concerns by incorporating these considerations either directly, in its final criteria, or through later explanatory guidance. DOD decided to address our concerns through clarifying guidance.

DOD's Prior Analysis Provided a Rough Measure of Excess Base Capacity

DOD faced a difficult task in responding to a congressional mandate that it report on excess capacity, without compromising the integrity of the 2005 BRAC process. In this regard, DOD opted to use a methodology that would give some indication of excess capacity but would not be directly linked to the capacity analysis being performed as part of the 2005 BRAC process. DOD officials indicated that they would build on the approach they used in their 1998 report[15] to estimate excess base capacity and address other BRAC issues. In November 1998,[16] we reported that DOD's analysis gave only a rough indication of excess base capacity because it had a number of limitations. In addition, the methodology did not consider any additional excess capacity that might occur by looking at facilities or functions on a cross-service basis, a priority for the 2005 round.

To estimate excess capacity in 1998, the military services and the Defense Logistics Agency (DLA) compared capacity for a sample of bases in 1989 with projected capacity for a sample of bases in 2003, after all scheduled BRAC actions were completed. The services and DLA categorized the

[15] The Report of the Department of Defense on Base Realignment and Closure, April 1998.

[16] See U.S. General Accounting Office, *Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure*, GAO/NSIAD-99-17 (Washington, D.C.: Nov. 13, 1998).

bases according to their primary missions, and they defined indicators of capacity, or metrics, for each category. Varied metrics were used to depict capacity. For example, metrics included maneuver acres per brigade for Army training bases, square feet of parking apron space for active and reserve Air Force bases, or capacity direct labor hours as compared with budgeted or programmed direct labor hours for Navy aviation depots. DOD officials are building on this methodology to compare 1989 data with more recent data in order to estimate current excess capacity as a means of meeting their 2004 reporting requirement.

That methodology, while providing an indication of excess capacity, has a number of limitations that make it difficult to be precise when trying to project a total amount of excess capacity across DOD. In addition to the factors already noted, GAO and the Congressional Budget Office[17] previously reported that by using 1989 as a baseline DOD did not take into account the excess capacity that existed in that year, which was prior to the base closures of the prior four rounds. As a result, the percentage of excess increased capacity reported may be understated or overstated for functional areas considered. Furthermore, the Congressional Budget Office reported that the approach could understate the capacity required if some types of base support were truly a fixed cost, regardless of the size of the force. Another limitation of DOD's methodology is that each installation could be counted only in one category even though it might have multiple functions. For example, an Air Force base that has a depot and a fighter wing could only be categorized in one functional area.

While the prior BRAC rounds have focused solely on reducing excess capacity, DOD officials have stated this is not the sole focus of the 2005 BRAC round. DOD officials have noted that the 2005 round aims to further transform the military by rationalizing base infrastructure to the force structure, enhancing joint capabilities and seeking crosscutting solutions and alternatives for common business-oriented support functions, as well as eliminating excess capacity. A complete assessment of capacity and opportunities to reduce it must await the completion of DOD's ongoing official analyses under BRAC 2005. Nevertheless, we believe sufficient indicators of excess capacity exist, as well as opportunities to otherwise achieve greater efficiencies in operations, to justify proceeding with the upcoming round.

[17] See Congressional Budget Office: *Review of the Report of the Department of Defense on Base Realignment and Closure* (Washington, D.C.: July 1, 1998).

Certification of BRAC 2005 Round Annual Net Savings by 2011

DOD financial data indicate that the department has generated net savings of about $17 billion through fiscal year 2001—the final year of the prior BRAC rounds—-and is accruing additional, annually recurring savings of about $7 billion thereafter. We have consistently affirmed our belief that the prior BRAC rounds have generated substantial net savings—primarily in the form of future cost avoidances—for the department. While these amounts are substantial, we have, at the same time, viewed these savings estimates as imprecise for a variety of reasons, such as weaknesses in DOD's financial management systems that limit its ability to fully account for the costs of its operations; the fact that DOD's accounting systems, like other accounting systems, are oriented to tracking expenses and disbursements, not savings; the exclusion of BRAC-related costs incurred by other agencies; and inadequate periodic updating of the savings estimates that are developed. DOD, in its 1998 report to Congress, indicated that it had plans to improve its savings estimates for the implementation of future BRAC rounds. We have also recommended that DOD improve its savings estimates for future BRAC rounds, such as the 2005 round.[18] DOD has not yet acted on our recommendation, but DOD officials told us that they intend to implement a system to better track savings for the upcoming round.

As required by the fiscal year 2002 legislation, DOD is required to certify for the upcoming 2005 BRAC round that it will achieve "annual net savings" for each military department by 2011. Using precise terminology is critical in statements regarding BRAC savings, because it can make a big difference in specifying when savings will actually occur and the nature of those savings. According to DOD officials, "annual net savings" essentially refer to the estimated savings that are generated from BRAC in a given year that are greater than the costs incurred to implement BRAC decisions in that same year.

Another way of looking at net savings is to consider the point at which cumulative savings exceed the cumulative costs of implementing BRAC decisions over a period of years. Experience has shown that the department incurs significant upfront investment costs in the early years

[18] See U.S. General Accounting Office, *Military Base Closures: Progress in Completing Actions from Prior Realignments and Closures*, GAO-02-433 (Washington, D.C.: Apr. 5, 2002). In this report GAO recommended that for the upcoming BRAC 2005 round, DOD "develop (1) a defense-wide systematic approach for the periodic updating of initial closure savings estimates and (2) an oversight mechanism to ensure that the military services and components update such estimates in accordance with the prescribed approach."

of a BRAC round, and it takes several years to fully offset those cumulative costs and begin to realize cumulative net savings. The difference in the terminology is important to understand because it has a direct bearing on the magnitude and assessment of the savings at any given time. For example, as shown in table 2, initial annual net savings reported by the department as a whole in the 1995 BRAC round did not begin to occur until fiscal year 2000, or the fifth year of implementation; in each of the prior years, the costs had exceeded the estimated savings.

Table 2: DOD-wide Costs and Savings for the BRAC 1995 Round

(Dollars in millions)							
	Fiscal years						
Costs/savings	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total costs	$943	$1,318	$1,314	$1,249	$706	$1,012	$648
Total savings	614	597	981	1,058	1,332	1,591	1,619
Annual net savings	(329)	(721)	(333)	(192)	626	579	971
Cumulative net savings	(329)	(1,050	(1,384)	(1,575)	(949)	(371)	600

Source: GAO analysis of DOD Fiscal Year 2005 Budget Estimates, February 2004.

Note: Numbers in parenthesis are negative. Totals may not add because of rounding.

On the other hand, as shown in table 2, there were no cumulative net savings as of fiscal year 2001, the sixth and final year of BRAC implementation. Cumulative net savings did not occur in this case until fiscal year 2002, based on DOD's data.

DOD financial data suggest that, assuming conditions similar to those of the 1993 and 1995 rounds, annual net savings for each of the military departments for the 2005 round could be achieved by 2011—that is, by 2011 savings could exceed closure-related costs for that year. While we believe that the potential exists for significant savings to result from the 2005 BRAC round, we are not in a position to say conclusively at this point to what extent DOD will realize annual net savings by 2011. In addition to the imprecision of DOD's data, there simply are too many unknowns at this time, such as the specific timing of individual closure or realignment actions that affect savings estimates and the implementation costs that may be required. The savings to be achieved depend on the circumstances of the various recommended closures and realignments as put forth by the 2005 BRAC Commission and on the implementation of those recommendations. Further, DOD has gone on record stating that the upcoming round is more than just an exercise of trimming its excess

infrastructure. DOD is also seeking to maximize joint utilization and further its transformation efforts. To what extent these goals may affect savings is also unknown at this point. And finally, to what extent forces that are currently based overseas may be redeployed to the United States and what effect that redeployment may have on BRAC and subsequent savings remain unknown as well.[19]

Notwithstanding the issues we raise that could affect savings, and the point at which savings would exceed the costs associated with implementing recommendations from a 2005 BRAC round, we continue to believe that it is vitally important for DOD to improve its mechanisms for tracking and updating its savings estimates. DOD, in its 1998 report to Congress on BRAC issues, cited proposed efforts that, if adopted, could provide for greater accuracy in the estimates. Specifically, the department proposed to develop a questionnaire that each base affected by future BRAC rounds would complete annually during the 6-year implementation period. Those bases that are closing, realigning, or receiving forces because of BRAC would complete the questionnaire. DOD would request information on costs, personnel reductions, and changes in operating and military construction costs in order to provide greater insight into the savings created by each BRAC action. DOD suggested that development of such a questionnaire would be a cooperative effort involving the Office of the Secretary of Defense, the military departments, the defense agencies, the Office of the DOD Inspector General, and the service audit agencies. This proposal recognizes that better documentation and updating of savings will require special efforts parallel to the normal budget process. We strongly endorse such action. If the department does not take steps to improve its estimation of savings in the future, then previously existing questions about the reliability, accuracy, and completeness of DOD's savings estimates will likely continue. We intend to examine DOD's progress in instituting its proposed improvements during our review of the 2005 BRAC process.

[19]DOD has noted that, as a parallel action, the Secretary of Defense has already undertaken a comprehensive study of global basing and presence—the Integrated Global Presence and Basing Strategy (IGPBS). It further noted that BRAC will accommodate any decisions from that study that relocate forces to the United States, and that DOD will incorporate its global basing strategy into a comprehensive BRAC analysis, thereby ensuring that any overseas redeployment decisions inform its recommendations to the BRAC Commission. See Analysis of Public Comments in 69 F.R. 6948, Feb. 12, 2004: DOD Final Selection Criteria for Closing and Realigning Military Installations Inside the United States.

Most Affected Communities Are Recovering from BRAC Actions

While the short-term impact can be very traumatic, several factors, such as the strength of the national and regional economies, play a role in determining the long-term economic impact of the base realignment or closure process on communities. Our work has shown that recovery for some communities remains a challenge, while other communities surrounding a base closure are faring better. Most are continuing to recover from the initial economic impact of a closure, allowing for some negative effect from the economic downturn in recent years.

Our analysis of selected economic indicators has shown over time that the economies of BRAC-affected communities compare favorably with the overall U.S. economy. We used unemployment rates and real per capita income rates as broad indicators of the economic health of those communities where base closures occurred during the prior BRAC rounds. We identified 62 communities surrounding base realignments and closures from all four BRAC rounds for which government and contractor civilian job losses were estimated to be 300 or more.

We previously reported that as of September 2001, of the 62 communities surrounding these major base closures, 44 (71 percent) had average unemployment rates lower than the (then) average 9-month national rate of 4.58 percent.[20] We are currently updating our prior assessments of economic recovery, attempting to assess the impact of the recent economic downturn on affected BRAC communities we had previously surveyed. What we are seeing is that, in keeping with the economic downturn in recent years, the average unemployment rate in 2003 increased for 60 of the 62 communities since 2001. However, the year 2003 unemployment rate data indicated that the rates for many of these BRAC communities continue to compare favorably with the U.S. rate of 6.1 percent. That is, 43 (69 percent) of the communities had unemployment rates at or below the U.S. rate.

As with unemployment rates, we had also previously reported that annual real per capita income growth rates for BRAC-affected communities compared favorably with national averages. From 1996 through 1999, 53 percent, or 33, of the 62 areas had an estimated average real per capita income growth rate that was at or above the average of 3.03 percent for the nation at that time. Data included in our 2002 report were the latest available at that time, recognizing time lags in data availability. Our recent

[20] GAO-02-433.

analysis has also noted that changes in the average per capita income growth rate of affected communities over time compared favorably and were similar to corresponding changes at the national level. Our more recent analysis indicates that 30 of the 62 areas examined (48.4 percent), had average income growth rates higher than the average U.S. rate of 2.2 percent between 1999 and 2001, which represents a drop from the rate during the previous time period.

We have previously reported on our discussions with various community leaders who felt the effects of base closures. These discussions identified a number of factors affecting economic recovery from base closures, including:

- robustness of the national economy,
- diversity of the local economy,
- regional economic trends,
- natural and labor resources,
- leadership and teamwork,
- public confidence,
- government assistance, and
- reuse of base property.

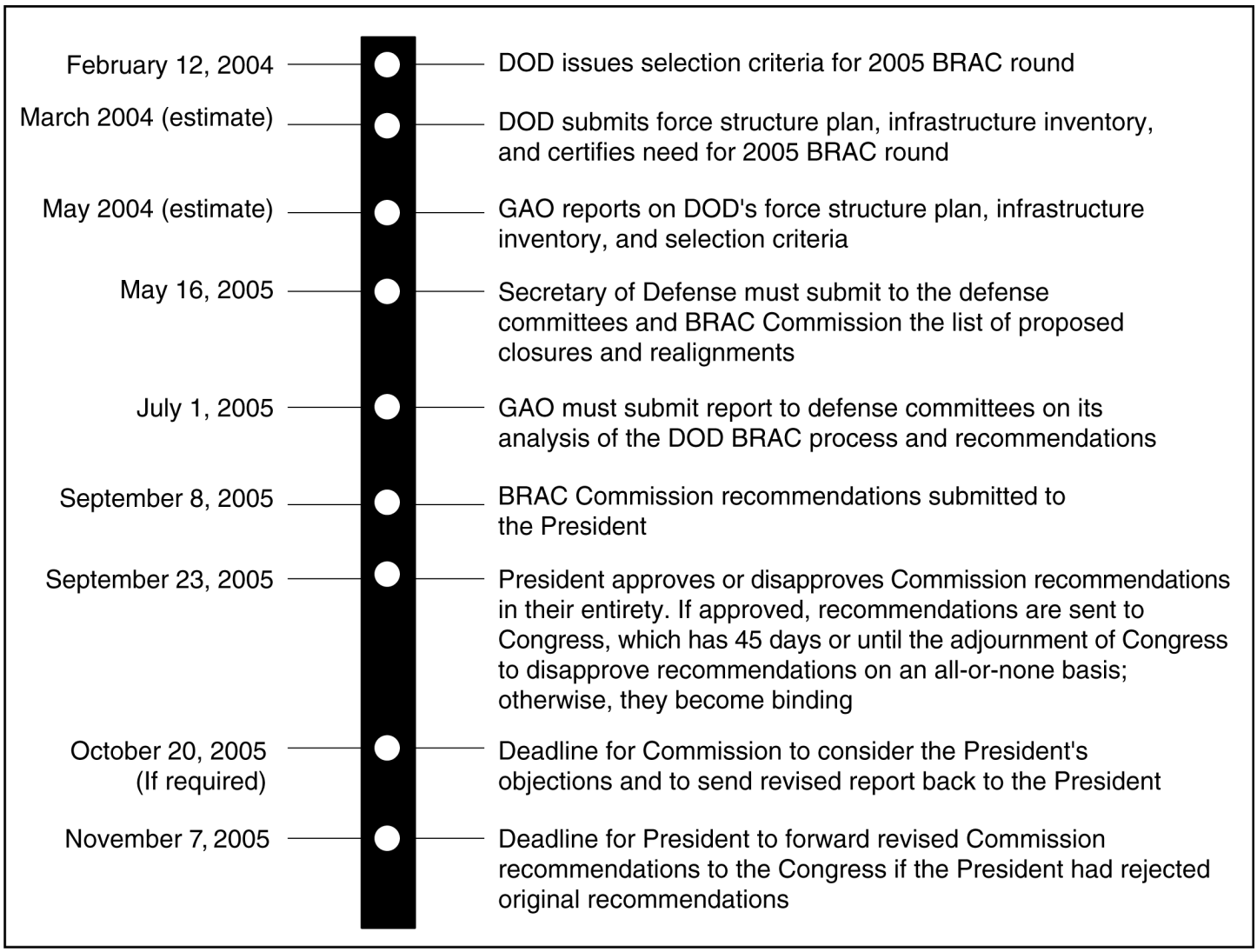
If history is any indicator, these factors are likely to be equally applicable in dealing with the effects of closures and realignments under BRAC 2005.

This concludes my statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have at this time.

Contacts and Acknowledgments

For further information regarding this statement, please contact Barry W. Holman at (202) 512-8412. Individuals making key contributions to this statement include Paul Gvoth, Michael Kennedy, Warren Lowman, Tom Mahalek, David Mayfield, James Reifsnyder, Cheryl Weissman, and Dale Wineholt.

Appendix I: BRAC 2005 Timeline



Source: P.L. 107-107.

Appendix II: Key GAO Reports on DOD's Base Realignments and Closures

U.S. General Accounting Office, *Military Base Closures: Better Planning Needed for Future Reserve Enclaves* (GAO-03-723, June 27, 2003).

U.S. General Accounting Office, *Military Base Closures: Progress in Completing Actions from Prior Realignments and Closures* (GAO-02-433, Apr. 5, 2002).

U.S. General Accounting Office, *Military Base Closures: Overview of Economic Recovery, Property Transfer, and Environmental Cleanup* (GAO-01-1054T, Aug. 28, 2001).

U.S. General Accounting Office, *Military Base Closures: DOD's Updated Net Savings Estimate Remains Substantial* (GAO-01-971, July 31, 2001).

U.S. General Accounting Office, *Military Bases: Status of Prior Base Realignment and Closure Rounds* (GAO/NSIAD-99-36, Dec. 11, 1998).

U.S. General Accounting Office, *Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure* (GAO/NSIAD-99-17, Nov. 13, 1998).

U.S. General Accounting Office, *Military Bases: Lessons Learned From Prior Base Closure Rounds* (GAO/NSIAD-97-151, July 25, 1997).

U.S. General Accounting Office, *Military Bases: Closure and Realignments Savings Are Significant, but Not Easily Quantified* (GAO/NSIAD-96-67, Apr. 8, 1996).

U.S. General Accounting Office, *Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment* (GAO/NSIAD-95-133, Apr. 14, 1995).

U.S. General Accounting Office, *Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments* (GAO/NSIAD-93-173, Apr. 15, 1993).

U.S. General Accounting Office, *Military Bases: Observations on the Analyses Supporting Proposed Closures and Realignments* (GAO/NSIAD-91-224, May 15, 1991).

U.S. General Accounting Office, *Military Bases: An Analysis of the Commission's Realignment and Closure Recommendations* (GAO/NSIAD-90-42, Nov. 29, 1989).

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:
Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548