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STATEMENT OF

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**BEFORE THE SUBCOMMITTEE ON
FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, AND
INTERNATIONAL SECURITY
OF THE SENATE HOMELAND SECURITY AND GOVERNMENT AFFAIRS
COMMITTEE**

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Mr. Chairman and distinguished members of this Subcommittee, I appreciate the opportunity to appear before you today to address how the Department of Defense manages and disposes of underutilized and vacant real property assets.

The Department currently manages over 570,000 buildings and structures with a plant replacement value of over \$650 billion, and over 46,000 square miles of real estate. We have developed models and metrics to predict funding needs and have established goals and performance measurements that place the management of Defense infrastructure on an objective, business-oriented basis.

The Department of Defense recognizes the long-term challenges associated with its real property and facilities. The Department has developed a strategy and several tools to address these challenges. The President's Management Agenda recently added the stewardship of federal real property as a new initiative. Since the beginning of the initial reporting on the President's Management Agenda scorecard, DoD has continued to improve in the scoring for real property, currently rated as "Green" for Progress and recently elevated to "Yellow" for current status. The Department is a full participant in the Federal Real Property Council established by Executive Order 13327 and just successfully completed the submission of the data requested by the Council from all land-holding agencies.

Working in full cooperation with the military services and other Defense components, the Department set out in 1997 to build a corporate-wide inventory of assets. The idea was and remains that the Department's funding requirements for installations is a function of the assets currently on hand and planned for the future. Hence, an accurate inventory and a forecast of those assets are fundamental to determining and assessing budget requirements. The Department is continuing to improve its inventory process and is working extensively in the interagency process to support a more useful federal inventory that can be used for management purposes.

In 1998, the Department set out on a six-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, we concluded that effort by exceeding our target - removing a total of 86 million square feet. As part of a continuing effort to dispose of unneeded facilities, the Department recently completed a new survey of demolition requirements.

In 2001, the Department issued its first ever Defense Facilities Strategic Plan. In September 2004 we issued a comprehensive, capabilities-based, and performance-oriented Defense Installations Strategic Plan (DISP). Our new plan begins to more fully integrate environmental management systems, safety, and occupational health into a comprehensive approach to asset management. The 2004 plan addressed recommendations made by the Government Accountability Office (GAO) and was approved by OMB as being consistent with the guiding principles of the Federal Real Property Council in meeting the objectives of the President's Management Agenda. The Department issued a supplemental brochure in 2005 to update the 2004 DISP. This year the DISP will be completely reviewed, re-written as needed and a new version will be issued.

Managing Real Property Inventory

Managing our facilities assets is an integral part of comprehensive asset management. The quality of our infrastructure directly affects training and readiness.

Facilities sustainment, using primarily operations and maintenance-like¹ appropriations, funds the maintenance and repair activities necessary to keep an inventory in good working order. It includes regularly scheduled maintenance and major repairs or replacement of facility

¹ Includes O&M as well as related military personnel, host nation, and working capital funds.

components that are expected to occur periodically throughout the life cycle of facilities.

Sustainment prevents deterioration and preserves performance over the life of a facility.

To forecast funding requirements for sustainment, we developed the Facilities Sustainment Model (FSM). FSM uses standard benchmarks drawn from the private and public sectors for sustainment costs by facility type and has been used to develop the Service budgets since fiscal year 2002 and for several Defense Agencies beginning in fiscal year 2004.

Recapitalization is the second step in our strategy. Restoration and modernization, collectively termed recapitalization, provide resources for improving facilities and is funded with either operations and maintenance or military construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident or other causes. Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years.

A key component of our facility program, the Military Construction appropriation, is a significant contributor to the Department's comprehensive approach to asset management practices. Military Construction funds enable the Department to transform in response to warfighter requirements, to enhance mission readiness, and to take care of our people. We do this, in part, by restoring and modernizing our enduring facilities, acquiring new facilities where needed, and eliminating those that are excess or obsolete.

Real Property Inventory

In accordance with Section 2721 of title 10 United States Code, "Real Property Records", the Military Departments and Washington Headquarters Service, the Washington area leasing field activity, maintain an accurate and complete real property inventory for all unclassified real

property assets (land and facilities) in which they have real property interest. DoD currently has five independent reporting systems that feed the Office of the Secretary of Defense (OSD) Facilities Assessment Database. The Department recognized the limitations in these independent reporting systems and has developed a business enterprise architecture that will better support our warfighter by making the data more accurate and readily available to all potential users.

The DoD, as of September 30, 2005, owns 479,648 facilities (buildings, structures and utilities), leases 10,839 facilities, and manages another 80,732. The facilities DoD manages include assets we are given rights to use but do not actually own or lease such as NATO facilities or state-owned facilities or facilities provided by other Federal agencies.

The costs associated with operating and maintaining DoD facilities in FY 2006 totaled \$45.34 billion. The plant replacement value of owned space (buildings, structures and utilities) in FY 2005 dollars is nearly \$660 billion.

The Department provides specific instructions as to what, how and when real property inventory data is reported as directed by Section 2721 of title 10 United States Code, “Real Property Records”. All assets that DoD holds interest (and there are nine different categories of interest) are reported annually to OSD. At this time, each Military Department maintains its own native database, which maintains an extensive amount of common information on each facility as well as any Service specific additions. A specific portion of this data is passed to OSD annually and serves as the basis for the Facilities Assessments Database, which is used by the Department on all matters relating to the existing real property inventory. Current business transformation efforts are significantly improving the existing inventory process through efforts to standardize data collection and capture within the Department.

Unused Leased And Owned Properties

One of our identified weaknesses in real property inventory reporting is the ability to accurately identify with confidence, vacant and underutilized properties. During BRAC analysis this limitation again surfaced and special data calls had to be conducted to capture such data. Realizing this limitation, the Department initiated changes to reporting requirements and by September 30, 2006, will begin receiving from our Military Departments vacant and underutilized property data. At that time, DoD should be in a better position to answer specific questions concerning vacant and underutilized properties.

Process For Disposing Of Unused Assets

The management of the Department's real property inventory is, with the exception of the Pentagon Reservation, the responsibility of the Military Department that has custody of the underlying real property asset. In accordance with the Federal Property and Administrative Services Act (FPASA) of 1949, when a Military Department, such as the Army, Navy or Air Force, determines that real property under its control is excess to military requirements it must report the property to the General Services Administration (GSA) for disposal. GSA is authorized by the Act to be the real property disposal agent for the Federal Government.

Before the Military Department reports the property asset as excess to GSA, it must screen the property asset within the Department of Defense to confirm that there is no longer a military need for the property asset. If the real property asset is not needed by any other DoD Component, then the Military Department that is excessing the real property asset must complete a Report of Excess, to include the required environmental documentation, and then may formally report the real property asset as excess to GSA. GSA will screen the real property asset with other Federal agencies to determine if there are any other Federal uses for the property. If no Federal agency expresses interest, the property is determined to be surplus Federal property and

then GSA will screen the real property asset with state and local governments to see if there is interest for the property at those levels. If no interest is determined, GSA will then place the real property asset up for public sale.

Challenges

With the Department's huge inventory of land and facilities the challenge is to continually ensure that we have the land and facilities we need, where and when we need it, to support the warfighter. The Department continually evaluates its requirements by working together with Military Service representatives and the Installation Commanders to determine what is needed to perform the mission.

Since the vast majority of our real estate assets are military bases, security and access issues limit the opportunities for compatible private sector joint use of underutilized land and facilities. Where circumstances permit, DoD seeks to leverage the value of underutilized property by making it available for joint private sector uses that are compatible with military mission requirements. DoD obtains not less than fair market value compensation, in cash or in kind, that defrays other infrastructure costs.

DoD Demolition Program

Many unused or underutilized DoD facilities have outlived their useful life and are not available for reuse – the only option is to either minimally maintain these assets or perform demolition. The Department of Defense executes a robust program designed to identify and eliminate excess and obsolete facilities. The process includes a comprehensive survey conducted by the Military Departments and selected Defense Agencies to identify all types of real property which are not needed or are no longer adequate for their intended purpose. Once

identified, these facilities are programmed for elimination through demolition or another means of disposal.

Because excess and obsolete facilities consume scarce resources just to meet minimum safety and maintenance requirements, that, in and of itself, is an incentive to dispose of them so the program is well supported by installation commanders. That said, and in light of the fact that the Military Departments have been pursuing a focused disposal program for several years, one of the main challenges now is the consolidation required to maximize available adequate space. The less complicated disposals have been accomplished, and those remaining can generate a requirement for renovation of other facilities or construction of new facilities.

The success of the focused demolition and disposal program is demonstrated in the implementation of Defense Reform Initiative Directive # 36 of May, 1998. That initiative directed the Military Departments to eliminate 80 million square feet, including over 8,000 structures, by 2003. The Department exceeded that objective by eliminating over 86 million square feet. The Department is continuing this initiative, and in a survey completed in December, 2004, identified an additional 66 million square feet to be eliminated. The Department's objective is to eliminate those facilities by FY 2013.

Successes

Since 1988, the Department has had statutory authority to restructure its land and facilities commensurate with changing missions in accordance with the legislatively mandated Base Realignment and Closure Process (BRAC). The Secretary of Defense directed that BRAC must rationalize our infrastructure to our force structure, enhance joint capabilities by improving joint utilization, and convert waste to warfighting by eliminating excess capacity. The four BRAC Commissions, 1988, 1991, 1993, and 1995, resulted in the closure or realignment of 152

major installations and 235 smaller installations. The four initial BRAC rounds have produced approximately \$17 billion in net savings through 2001, and are generating about \$7 billion in savings annually.

Congress authorized BRAC 2005 because it recognized that BRAC is the only process that can accomplish the infrastructure rationalization required to position the Department for the 21st century. While every one of our installations has a superb history of supporting the defense of this nation, the fact remains that our base structure cannot remain static in the face of the impact of new threats and technology on our warfighting capability. As such, we must consider closing some installations and realigning others in order to optimize our infrastructure and to ensure the needed physical capacity is positioned and configured to make the most effective and efficient contribution to operations. The resulting 2005 BRAC round recommendations will affect over 800 locations (25 major closures, 24 major realignments, 765 lesser actions) and current estimates indicate we will save approximately \$4 billion annually and \$36 billion over 20 years in Net Present Value.

A well supported, capabilities-based force structure should have infrastructure that is best sized and placed to support emerging mission requirements and national security needs. DoD must configure its infrastructure to maximize both warfighting capability and efficiency. Through BRAC and the global posture changes the Department will support the warfighter more effectively and efficiently.

In direct contrast to non-BRAC real property disposals which are accomplished by GSA, the Department has been delegated authority from GSA to be the disposal agent for BRAC real property assets. Important to the success of these efforts is the flexibility each Military Department has to apply its delegated real property disposal authorities in a manner to be responsive to specific local circumstances. These disposal options, ranging from discounted

conveyances for public purposes to public bid sales, enable the Department to partner with affected communities as both seek opportunities for quick civilian reuse of former military installations. A closed installation is often the affected community's greatest asset for mitigating the closure impacts and charting a future that diversifies the local economy, builds on a community's strengths, adds local tax base, and satisfies community public facility needs.

The Navy sale of property at the former Marine Corps Air Station, El Toro, California, exemplifies a highly successful BRAC property disposal in which DoD used the public sale process to dispose of property in accordance with local community redevelopment preferences. It was the largest single BRAC public sale conveyance in DoD to date -- approximately 3,720 acres. After several years of local community debate and disagreement about whether to retain airport uses of the property, in March 2002, Orange County voters approved a ballot initiative that directed a change to the County's General Plan emphasizing recreational, educational, and residential uses. The City of Irvine subsequently annexed the property, and Navy worked in very close partnership with the City to formulate plans for the public sale of the property that were consistent with the expressed will of the local community.

The Navy marketed the public sale via an Internet website that provided extensive information about the property, and conducted the sale as an Internet auction in partnership with GSA. The auction concluded in February 2005 and the successful bid was of \$649.5 million, the largest BRAC land sale revenue to date. The key to the success was the important partnership between the local governments, the development community, and the Federal government. This "partnership triad" allowed the local community to determine land use planning and zoning for the property, engaged the skills and abilities of the developers to transform the property into uses that benefit the community, enabled the Federal government to fulfill its mission to convey property back into productive public use and provides economic return to the Nation's taxpayers.

The sale proceeds are being used by the Navy to fund remaining environmental cleanup obligations at El Toro and other prior BRAC locations.

Conclusion

The Department is transforming its installations and business practices, to include the management and disposal of real property assets, through a comprehensive asset management strategy, and we are now seeing the results of that transformation. The BRAC 2005 effort is a key means to transform our infrastructure to be more flexible and to quickly and efficiently respond to the challenges of the future.

In short, we have made significant progress and we are well on our way to achieving our goals. In closing, Mr. Chairman, I sincerely thank you for this opportunity to address the Subcommittee on the Department's efforts to manage and dispose of real property assets.