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**BEFORE THE SUBCOMMITTEE ON READINESS
HOUSE ARMED SERVICE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES**

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Mr. Chairman and distinguished members of this Subcommittee, I appreciate the opportunity to discuss the President's Budget request for fiscal year 2004 and the plan of the Department of Defense for improving its facilities. The Department is transforming its force structure to meet new security challenges and transforming the way it does business. In Installations and Environment, this translates into a renewed emphasis on taking care of our people, providing facilities to support the warfighter by eliminating facilities we no longer need and improving those that we do, and modernizing our business practices – all while protecting the environment and those assets for which we have stewardship responsibility.

To prevail in the Global War on Terrorism and to prepare for future threats to American security, the Secretary of Defense has argued forcefully that we must transform the military. Our military capabilities must become more lethal, agile, and prepared for surprise. This transformation was under way before the attacks on September 11th. But, let us be clear, transformation is about more than new weapon systems, doctrinal innovation, and the employment of technology; it also is about changing our approach to the fundamental business practices and infrastructure of the Department of Defense.

The Department currently manages more than 620,000 facilities, valued at around \$600 billion, and over 46,000 square miles of real estate. Within that portfolio of real estate and facilities, we manage threatened and endangered species, diverse geological features, and important historical resources, including 68 registered National Historic Landmarks and over 14,000 properties currently listed on, or eligible for, the National Register of Historic Places.

The Defense Facilities Strategic Plan is our roadmap for managing this portfolio and outlines our long-term plan – healthy, productive installations and facilities that are available when and where needed with capabilities to support current and future military requirements. In recent years, we have developed models to more accurately determine our requirements and a sound management plan for getting our facilities back on track.

Today, I will address our accomplishments and future plans for restoring readiness to our facilities by taking care of our people, taking care of what we own, improving our business practices, and transforming our bases and infrastructure.

THE ROAD TO RECOVERY

Military installations and facilities are an integral component of readiness. Installations are the “platforms” from which our forces successfully deploy to execute their diverse missions. Over many years, these “platforms” have deteriorated. For instance, each year the Major Commands of the Military Services rate the readiness of their facilities by category. In the 2001 Installations' Readiness Report (IRR), the Component Commanders – the force providers – collectively rated 68 percent of facilities categories C-3 (have serious deficiencies) or C-4 (do not support mission requirements), a slight improvement from the 69 percent rate in 2000. The 2002 IRR is roughly the same as 2001. Investments made since fiscal year 2002 will take several years before the affects

are apparent. We are in the process of reversing the decay, but much remains to be done. From fiscal years 2002 to 2004, we will have put over \$28 billion in the sustainment and revitalization of our facilities, and we are beginning to see the results.

The installations management approach of the Department led us to a different way to view our installations and environmental portfolio. This portfolio is more than simply military construction and family housing. It also includes environmental funding and other contributions from appropriations such as military personnel, host nation support, non-appropriated funds and working capital funds, in addition to operations and maintenance (O&M). This funding sustains our facilities through day-to-day maintenance and contributes to our restoration and modernization program. The fiscal year 2004 budget request includes over \$19 billion in fiscal year 2004 to support our entire portfolio.

The Facilities Sustainment program funds the normal and scheduled maintenance and repairs for the inventory, using operations and maintenance funds primarily, supplemented by other sources. Sustainment preserves the inventory and allows it to reach its expected service life. For the O&M-funded sustainment requirement, we are sustaining our facilities at 94 percent of commercial benchmarks, slightly over the 93 percent requested last year. We plan to achieve full sustainment not later than fiscal year 2008.

Our Facilities Restoration and Modernization program repairs or replaces damaged or obsolete facilities and implements new or higher standards where necessary. The Restoration and Modernization program applies both military construction and operations and maintenance appropriations to recapitalize our facilities and housing.

Our fiscal year 2004 funding request allows us to achieve a recapitalization rate of 148 years for the Military Departments, down from 149 years in fiscal year 2003, meaning the Department renovates or replaces its facilities an average of every 148 years. We now include the Defense Logistics Agency, DoD Education Activity and Tricare Medical Activity in the calculations, resulting in a corporate rate of 136 years for fiscal year 2004. Our goal remains a 67-year recapitalization rate, consistent with commercial practices, and our current program would achieve that level in fiscal year 2008.

In the near term, obsolete facilities pose risks to mission effectiveness, safety, quality of life, productivity of the workforce, and cost efficiencies, but these risks are mitigated to some degree by eliminating facilities through Base Realignment and Closure (BRAC), facilities demolition programs, and an aggressive acceleration of recapitalization rates in the future years defense program.

Facilities revitalization will take time. However, the indicators are trending in the right direction, showing that we are indeed making progress. With continuing attention to our Defense Facilities Strategic Plan and current planning guidance, we can achieve our goal.

Comparison of Military Construction and Family Housing Requests

(President's Budget in \$ Millions – Budget Authority)

	Fiscal Year 2003 Request	Fiscal Year 2004 Request
Military Construction	4,054	4,480
NATO Security Investment Program	168	169
Base Realignment and Closure	545	370
Family Housing Construction/Improvements	1,341	1,237
Family Housing Operations & Maintenance	2,877	2,780
Homeowners Assistance	0	0
Family Housing Improvement Fund	2	0.3
TOTAL	8,987	9,036

TAKING CARE OF OUR PEOPLE

Our priority is to support the warfighter, ensure superior living and working conditions and enhance the safety of the force and quality of the environment. At the outset of this Administration, the President and Secretary Rumsfeld identified military housing as a top priority for the Department. Sustaining the quality of life of our people is crucial to recruiting, retention and readiness. To that end, the Department is committed to providing quality housing using the established three prong approach – increased basic allowance for housing (BAH), increased housing privatization, and sustained military construction for housing.

In January 2001, the Department had about 180,000 inadequate family housing units. Today, through housing privatization and our military construction program, we have reduced that number to roughly 163,000. This number will continue to come down as we pursue the Secretary's goal of eliminating inadequate housing by 2007.

We remain committed to reducing – and then eliminating – the out-of-pocket housing costs for the average military member through changes in the basic allowance for housing, a key component of the Department's approach to quality housing. The fiscal year 2004 budget request includes necessary funding to continue lowering out-of-pocket housing costs for members living off-base from 7.5 percent in 2003 to 3.5 percent in 2004. By 2005, the typical member living in the private sector will have zero out-of-pocket housing expenses. Eliminating out-of-pocket expenses is good for military personnel, but also serves to strengthen the financial profile of the housing privatization program by providing members the ability to pay appropriate market rents.

Privatizing military housing is a priority for the President and the Secretary and is an integral part of the Administration's Management Plan. Our housing privatization program is crucial to providing a decent quality of life for our service members.

We believe our housing privatization efforts have gained "traction" and are achieving success. As of February 2003, we have awarded 18 projects, which include 27,884 military family housing units. We also have one award in its final stage of approval – Kirtland AFB, New Mexico – which we expect to award next month. We project more than 20 more privatization awards each in fiscal years 2003 and 2004 – bringing our cumulative total to about 102,000 units privatized.

Projects at five installations have their renovations and construction completed: Naval Air Station Corpus Christi/Naval Air Station Kingsville, Texas, Naval Station Everett Phases I and II, Robins Air Force Base, Georgia, Lackland Air Force Base, Texas, and Dyess Air Force Base, Texas. During fiscal year 2004, we expect several other bases to have their renovations and construction completed or close to completion, including those at Fort Carson, Colorado and Naval Complex New Orleans, Louisiana.

Our policy requires that privatization projects yield at least three times the amount of housing as traditional military construction for the same amount of appropriated dollars. Recent projects have demonstrated that leveraging is normally much higher. The first 17 projects we've analyzed thus far reflect an average leverage ratio of over 10 to 1.

Tapping this demonstrated leveraging potential through housing privatization has permitted the Department, in partnership with the private sector, to provide housing for about \$276 million of military construction funding that would otherwise have required over \$2.7 billion for those awarded projects if the traditional military construction approach was utilized.

More important than the raw numbers is the reaction of uniformed personnel and their families to the housing developed under the initiative. It is overwhelmingly positive based on the high quality product produced by the projects.

Military construction is another tool for resolving inadequate military housing. In fiscal year 2004, we are requesting \$4.0 billion in new budget authority for family housing construction and operations and maintenance. This funding will enable us to continue operating and maintaining the Department's family housing as well as meeting the goal to eliminate inadequate housing by 2007 – three years earlier than previously planned.

We also are improving housing for our unaccompanied service members through increases in bachelor housing funding. The Department's fiscal year 2004 budget request includes funding that would build or renovate over 12,000 bed spaces. The Services are making significant progress toward meeting, or have already met, the Department's previous goal for eliminating gang latrine conditions for permanent party unaccompanied members. Additionally, the Services are currently preparing Barracks Master Plans, similar to the Family Housing Master Plan, for managing their inventory and outlining their plans for eliminating inadequate permanent party barracks by 2007.

As we gain momentum in privatizing family housing, we also are exploring and encouraging the possibility of privatizing barracks that support our unaccompanied service members. The Department strongly supports barracks privatization and has attempted to overcome barriers that impede our ability to execute a program.

The Secretary of the Navy was authorized by the National Defense Authorization Act for Fiscal Year 2003 to execute a pilot program for barracks privatization that includes authority for the payment of partial basic allowance for housing. The Navy considers barracks privatization a key part of their “Homeport Ashore Initiative”. We have discussed with the Navy some of their plans in this area, and we expect to review a pilot proposal later this year.

We recognize that a key element in maintaining the support of the Congress and of the private sector is the ability to define adequately the housing requirement.

The Department’s longstanding policy is to rely primarily on the private sector for its housing needs. Currently, two-thirds of military families reside in private sector housing, and that number will increase as we privatize the existing inventory of housing units owned by the Military Departments. Only when the private market demonstrates that it cannot provide sufficient levels or quality of housing should we consider the construction, operation, and maintenance of government-owned housing.

An improved housing requirements determination process, recently approved by the Deputy Secretary, combined with increased privatization, is allowing us to focus resources on maintaining the housing for which we have a verified need rather than wasting those resources duplicating private sector capabilities. The improved housing requirement process is being used by the Department to better determine the number of family housing units needed on installations to accommodate military families. It provides a solid basis for investing in housing for which there is a verified need – whether through direct investment with appropriated funds or through a privatization project.

By aligning the housing requirements determination process more closely with the analysis utilized to determine basic allowance for housing rates, the Department is better positioned to make sound investment decisions necessary to meet the Secretary’s goal to eliminate inadequate housing by 2007. Further, as more military families opt to reside in the private sector as housing out-of-pocket expenses decrease for the average member, the Services on-base housing requirement should generally also decline. This migration should permit the Services to better apply scarce resources to those housing units they truly need to retain.

TAKING CARE OF WHAT WE OWN

Sustaining, Restoring and Modernizing Facilities

The Department's program for modernizing military housing is well underway. We are also focused upon improving the work environment through proper facilities sustainment and recapitalization. As we have seen through the Installations' Readiness Report, the quality of our infrastructure directly affects readiness. Our first priority is to fully sustain our facilities, and we have made significant progress in this area. Full sustainment improves performance and reduces life cycle costs, maximizing the return on our capital investments. Repairing and replacing facilities once they have deteriorated is more expensive. Our recent investments in sustainment and recapitalization, along with continued investment over time, will restore readiness, stabilize and reduce the average age of our physical plant, reduce operating costs and maximize our return on investment.

Despite the challenges, we have preserved funding for facilities sustainment and restoration and modernization. The Department is requesting \$6.4 billion in fiscal year 2004 for sustainment. The budget funds sustainment at 94% of standard benchmarks. That is not an average of the Military Departments – it is the floor we established for all the Military Departments, an improvement over last year, and we have a plan to achieve full sustainment by 2008.

But sustainment alone is not enough. Even well-sustained facilities eventually wear out or become obsolete, and we have a lot of facilities in that condition now. So, in addition to sustainment, we must also restore and modernize facilities. Some of this recapitalization is critical and cannot wait. Our fiscal year 2004 funding request of \$3.4 billion for restoration and modernization maintains our commitment to improving the work environment while weighing the requirements against other Departmental priorities.

We measure the rate of restoring and modernizing against an average expected service life of our inventories, which we calculate at 67 years. The fiscal year 2004 Military Department recapitalization rate is about 148 years, compared with 149 years for fiscal year 2003. With the Defense Agencies included, our corporate rate for fiscal year 2004 is down to 136 years, an improvement over last year's request. Our program funds the 67-year rate in fiscal year 2008, and between now and then we plan to follow a smooth glide path to that level. This past year, we thoroughly reviewed and standardized our Facilities Recapitalization Metric, so we can track and report on our progress toward the goal with confidence.

Improved Facilities Footprint Management

We continue to explore methods for reducing our footprint and better utilizing existing facilities. Demolition is a valuable tool for eliminating excess and obsolete facilities. From fiscal years 1998 through 2002, the Services demolished and disposed of over 75 million square feet of unnecessary, deteriorated facilities, resulting in significant cost avoidance in sustainment and restoration and modernization expenses to the Department. We expect to exceed our goal of demolishing 80.1 million square feet by the end of 2003, and we are requesting about \$80 million in fiscal year 2004 to carry on this successful program.

While we use demolition for excess facilities, the enhanced-use leasing program enables us to make better use of underutilized facilities. As we transform the way we do business, the Department remains committed to promoting enhanced-use leasing where viable. This type of lease activity allows us to transform underutilized buildings and facilities, with private sector participation, into productive facilities. Examples of these opportunities include, but are not limited to, the creation of new or joint-use opportunities for office space, warehouses, hotels/temporary quarters, vehicle test tracks, wind tunnels, energy generation plants, recreational playgrounds, and sports venues. Additional benefits can accrue by accepting base operating support or demolition services as in-kind consideration; thereby, reducing the appropriations needed to fund those activities.

Finally, enhanced-use leasing provides opportunities to make better use of historic facilities and improve their preservation as both cash and in-kind consideration may be used for those purposes. The Army is a leader in this regard, with pilot projects being discussed at Fort Sam Houston and Walter Reed Army Medical Center.

Improving Energy Management

As we sustain, restore and modernize facilities, part of our focus is to reduce our energy consumption and associated costs. To accomplish this, the Department is developing a comprehensive energy strategy that will continue to optimize utility management by conserving energy and water usage, improve energy flexibility by increasing renewable energy usage and taking advantage of restructured energy commodity markets as opportunities present themselves and modernize our infrastructure by privatizing our deteriorated and outdated utilities infrastructure where economically feasible.

With approximately 2.2 billion square feet of facilities, the Department is the single largest energy user in the nation. Conserving energy will save the Department funds that can be better invested in readiness, facilities sustainment, and quality of life.

Our efforts to conserve energy are paying off. In fiscal year 2002, military installations reduced consumption by 3.1 percent, resulting in a 6 percent decrease in the cost of energy commodities from the previous year. With a 25.5 percent reduction in fiscal year 2002 from a 1985 baseline, the Department is on track to achieve the 2010 energy reduction goal for buildings of 35 percent per square foot.

The Department has a balanced program for energy conservation—installing energy savings measures using appropriated funding and private-sector investment—combined with using the principles of sustainable design to reduce the resources used in our new construction. Energy conservation projects make business sense, historically obtaining about four dollars in life-cycle savings for every dollar invested. The fiscal year 2004 budget contains \$69.5 million for the Energy Conservation Investment Program (ECIP) to implement energy saving measures at our facilities. This is a 39 percent increase from fiscal year 2003 budget request of \$50 million.

The Department will also continue to pursue renewable energy technologies such as fuel cells, geothermal, wind, solar, and purchase electricity from these environmentally-

friendly renewable sources when it is life-cycle cost-effective. In fiscal year 2002, military installations used 4.5 trillion British Thermal Units of renewable energy, doubling the amount from the previous year. The pursuit of renewable energy technologies is critical to the Department's and Nation's efforts in achieving energy flexibility.

A key part of our energy program is our utilities management efforts, focused on modernizing systems through utilities privatization. By incorporating lessons learned and industry feedback, the Department has strengthened efforts to take advantage of private sector innovations, efficiencies and financing. We have over 2,600 systems with a plant replacement value of approximately \$50 billion. Thirty-eight (38) systems have been privatized using the utilities privatization authority in current law. Another 337 systems were privatized using other authorities, and privatization solicitations are ongoing for over 850 utility systems.

The Services plan to request privatization proposals for the remaining 450 systems over the next two years. We are on track to complete privatization decisions on all the available water, sewage, electric and gas utility systems by September 2005. Congressional support for this effort in fiscal year 2004 is essential to maintain the procurement momentum and industry interest, as well as maximize the benefits of modernizing the Department's utility infrastructure.

Improving Environmental Management

The Department continues to be leaders in environmental management. We are proud of our environmental program at our military installations throughout the world, and we are committed to pursuing a comprehensive environmental program.

Environmental Program - Summary of Request (President's Budget in \$ Millions – Budget Authority)

	Fiscal Year 2003	Fiscal Year 2004
	Request	Request
Cleanup	1,278	1,273
BRAC Environmental⁽¹⁾	519	412
Compliance	1,701	1,603
Pollution Prevention	247	173
Conservation	152	153
Technology	205	191
Total	4,102	3,805

In fiscal year 2004, we are requesting \$3.8 billion for environmental programs. This includes \$1.3 billion for cleanup, \$0.4 billion for BRAC environmental, \$1.6 billion for compliance; about \$0.2 billion for pollution prevention, and about \$0.2 billion for conservation.

By the end of fiscal year 2002, we reduced new environmental violations by 77 percent from the 1992 baseline. The Department continues to reduce the percent of enforcement actions received per inspection, with roughly one enforcement action per 12.5 inspections, down from one for every three inspections in 1994. We have also improved our treatment of wastewater and the provision of drinking water for those systems we control.

We reduced the amount of hazardous waste we generate by over 64 percent since 1992, and we are avoiding disposal costs by diverting non-hazardous solid waste from landfills by recycling and other approved methods. These pollution prevention techniques continue to save the Department needed funds as well as reduce pollution. As an example, the Department saved about \$95 million in disposal costs in 2001. We have increased the number of alternative fueled vehicles that we use in order to reduce the demand for petroleum, and we continue to reduce the number and amount of toxic chemicals we release through our industrial processes and training operations.

The Department's commitment to its restoration program remains strong as we reduce risk and restore property for future generations. We are exploring ways to improve and accelerate cleanup with our regulatory and community partners. Achieving site closure and ensuring long-term remedies are challenges we face. Conducting environmental restoration activities at each site of the installations in the program requires accurate planning, funding, and execution of plan. The Department must plan its activities years in advance to ensure that adequate funding is available and used efficiently.

The Defense Environmental Restoration Program goals assist the Components in planning their programs and achieving funding for activities. We achieved our goal to reduce 50 percent of high risk sites at active installations by the end of fiscal year 2002 and are on track to achieve 100 percent by the end of fiscal year 2007. At BRAC installations, final remedy for 90 percent of the sites was in place by the end of fiscal year 2001, and we anticipate completion by the end of fiscal year 2005.

We also are working to mitigate unexploded ordnance (UXO) on our military ranges. Our operational ranges are designed to train and make combat-ready our Nation's warfighters and prepare them as best as we can for combat. UXO on ranges is a result of our military preparedness training activities. However, we are actively seeking ways to minimize the amount of UXO on our operational test and training ranges. The Department is developing policies on the periodic clearance of UXO for personnel safety and to ensure chemical constituents do not contaminate groundwater.

For the areas other than operational ranges which have a UXO challenge – our Formerly Used Defense Sites, BRAC installations, and closed ranges on active installations – we are currently developing the reports requested by Congress in the National Defense Authorization Act for Fiscal Year 2002. We will have an inventory of our munitions response sites, cost estimates, a comprehensive plan, and will define the current technology baseline with a roadmap for future action.

In addition, we are developing new technologies and procedures through the Environmental Security Technology Certification Program and the Strategic Environmental Research and Development Program. These, along with the Army and Navy's Environmental Quality Technology Program, have enabled us to make tremendous strides for realizing our goals of reducing cost, completing projects sooner and sustaining the safety of our communities.

As you may know, the Defense Science Board (DSB) assessed the UXO issue in 1998. Last year, the Under Secretary of Defense for Acquisition, Technology and Logistics commissioned a new DSB Task Force to look at this entire issue. Their report is due for completion this summer, and we look forward to acting on their recommendations.

Beyond the dollars, we have implemented a new environmental management systems (EMS) policy as a part of the Administration's emphasis that enables us to train and operate more effectively and efficiently, while reducing our impact on the environment. Through this "systematic approach," we can continually improve both our mission performance and our environmental management. We are implementing this across all military missions, activities and functions to modernize the way we manage the environment entrusted us by the American people, and we are on-track to achieve the EMS goal established in Executive Order 13148. We hope to reach the level where our mission activities are so well managed from an environmental perspective that our environmental impacts would be virtually eliminated and remove our liabilities from long-term compliance bills. EMS is the systematic approach to achieve this goal and resolve the perceived conflict between mission and environmental stewardship.

We also look to our stakeholders and government agencies to help us better identify our environmental management issues. On February 5th, we hosted a defense environmental forum at the National Defense University. At the meeting, recognized leaders from federal, tribal, state and local governments, the private sector, academia, the scientific and research community, and other non-governmental organizations exchanged insights on pressing environmental issues facing the Department. Our objective was to identify and diagnose the major issues associated with the twin imperatives of military readiness and environmental protection. This new initiative will improve our communication with stakeholders and enable us to more effectively manage our mission and environmental challenges.

Another significant environmental accomplishment is in the area of natural resources. The Department has been managing natural resources for a long time – we currently manage more than 25 million acres. In October of 2002, we issued a new policy for "Integrated Natural Resource Management Plans", or "INRMPS", used by the Department to protect natural resources on our installations. Previous guidance emphasized early coordination with all stakeholders, the U.S. Fish and Wildlife Service and appropriate state agencies to ensure that we meet the conservation requirements of the Sikes Act and focus on the preservation and maintenance of healthy and fully functional ecosystems. The new guidance emphasizes coordination requirements, reporting requirements, implementation requirements, and other miscellaneous

requirements. The miscellaneous requirements highlight the need to ensure that we manage our assets in accordance with the INRMPs to ensure that there is no net loss in the capability of military installation lands to support the military mission of the installation, in this case test and training opportunities, as well as preserving the natural resources entrusted to us.

We have completed integrated natural resource management plans at the vast majority of bases.

We also are pursuing the completion of integrated cultural resource management plans at our installations to ensure that we identify and preserve historical treasures. This will allow us to test and train to maintain a ready military force without fear of endangering our heritage. We acknowledge there are still some very complex and difficult challenges, but we are making progress.

Preserving Ranges and Training Areas

The Department takes seriously the fact that an important part of our national defense mission is to defend and preserve the natural environment entrusted to us. Our personnel take understandable pride in their environmental record – a record with documented examples of impressive management of critical habitats and endangered species. However, the impacts on readiness must be considered when applying environmental regulations to military-unique training and testing activities. The ever-growing problem of “encroachment” on our military training ranges is an issue for us here at home, as well as at our overseas training locations.

We are addressing the effects that encroachment poses to our ability to “train as we fight.” This effort, known as the Readiness and Range Preservation Initiative, is the Department’s broad-based effort to find solutions to a variety of pressures on our test and training lands.

This past year, Congress enacted two legislative provisions that allow us to cooperate more effectively with local and state governments, as well as private entities, to plan for smart growth surrounding our training ranges. These provisions allow us to work toward preserving habitat for imperiled species and to limit development to land uses that are compatible with our training and testing activities. Congress also provided the Department a temporary exemption from the Migratory Bird Treaty Act for the incidental taking of migratory birds during military readiness activities. These were three of the eight provisions the Department sought approval on as part of our Readiness and Range Preservation Initiative in the National Defense Authorization Act for Fiscal Year 2003.

Today, we are developing a long-term process to address encroachment by creating a multi-year, comprehensive program to sustain training and testing. This program will pursue not only legislative clarification but also regulatory and administrative changes, internal policy and procedure adjustments, and an active stakeholder engagement strategy.

The Administration will seek legislative clarification where laws are being applied beyond their original legislative intent. We believe that modest legislative reforms are needed to ensure the preparedness of this Nation's Armed Forces, and we will continue to work with Congress to seek enactment of legislation to address these concerns.

We are in the process of evaluating all of the circumstances that create problems for our test and training ranges. Some of these may be solved with administrative or regulatory changes. We are working with the Military Services, other federal agencies, tribes, states and local communities to find ways to better balance military, community and environmental needs.

The Department also is developing a suite of internal policy and procedure adjustments, the capstone of which is a new Department of Defense Directive recently signed by the Deputy Secretary to ensure long-range, sustainable approaches to range management. In addition, we intend to strengthen and empower management structures to deal with range issues. We also have taken a pro-active role to protect bases from urbanization effects by working with local planning and zoning organizations and other stakeholders.

The actions taken by Congress last year will greatly assist in this process by allowing us to work toward preserving habitat for imperiled species and to limit development to land uses that are compatible with our training and testing activities. The Services will identify opportunities to utilize these new authorities. We plan to convene a workshop early this year with key land conservation organizations and representatives from state and local communities to develop an implementing Memorandum of Understanding and sample cooperative agreements that can be utilized under the new authorities.

The Department also is planning to address the long-term sustainment process by reaching out to and involving other stakeholders. We need to improve the understanding of readiness needs among affected groups such as state and local governments, and non-governmental organizations. We must establish dialogue and form partnerships with these groups to reach our common goals by focusing on areas of common interest. This will enable us to take a proactive stance against encroachment and protect our bases into the future.

IMPROVING BUSINESS PRACTICES

Adopting a Common Approach to Managing Real Property

We are undertaking an aggressive initiative to make management of our real property more efficient and effective. This project is called the Real Property Enterprise Solution (RPES), and is part of the larger Financial Management Modernization Program.

Our vision is to improve the accuracy, reliability, timeliness, and usefulness of real property information necessary by all levels of decision-making to support the Department's overall mission, resources, accounting, accountability and reporting requirements. We will accomplish our vision through development and implementation

of a standard, Defense-wide real property enterprise architecture resulting in: standard business practices and processes, standard categorization, definitions and terminology and a standard system (or systems).

We are teaming with the Office of the Under Secretary of Defense (Comptroller) to develop and update our plans. We are 80 percent finished with our enterprise architecture for real property. An enterprise architecture catalogs the current real property activities and leads to identification of the optimal business processes and technical standards, with a transition plan showing how to get from the current to the optimal state, recognizing any business constraints. By the end of this calendar year, we plan to complete the market research and solution assessment and expect field a pilot system or systems in calendar year 2005 for a significant portion of the real property business area.

As part of the reform of the Department's business practices, we developed the Facilities Sustainment Model (FSM) and the Facilities Recapitalization Metric (FRM). The Facilities Sustainment Model and the Facilities Recapitalization Metric, based on standard commercial processes, improve the way we inventory and account for facilities and more clearly defines our facilities sustainment and recapitalization requirements.

The Services have used FSM to define their sustainment requirements since fiscal year 2003, and the Defense Agencies were included for fiscal year 2004.

This past summer we thoroughly reviewed and standardized the FRM, so we can track and report on our progress toward our recapitalization goals with confidence. The revised metric is now used throughout the Department to calibrate the rate at which we restore and modernize facilities and to ensure that all elements of the Department are moving forward toward our corporate goals. With these two new tools, we have finally established a common requirements generation process and a sound method for forecasting funding requirements.

In developing these models, we also changed the program element (PE) structure for fiscal year 2002 budget execution, doing away with the real property maintenance PEs, and creating sustainment and restoration/modernization (recapitalization) PEs. These newly defined program elements align our financial management and accounting cost elements with this new, transformed management structure and permit tying dollars and budgets to performance.

Reducing Cycle Time

An imperative within the acquisition community is to reduce cycle time while also reducing total ownership costs. In the Installations and Environment community, we viewed this as a challenge to improve business processes, enabling resources – both money and people – to be better used elsewhere.

We established an integrated product team (IPT), with the Services and Defense Agencies, to identify alternatives to reduce cycle time for military construction. Facility

construction typically takes about five to eight years from requirements determination to beneficial occupancy. We researched and adapted private sector practices, where possible, but in some cases we may need legislative change. We will urge your consideration of such proposals should they be necessary.

Focusing on Core Competencies

As we consider approaches to better utilize our personnel, competitive sourcing provides a methodology for focusing on our core capabilities. The Department will obtain needed products or services from the private sector where it makes sense. We support the Competitive Sourcing Initiative in the President's Management Agenda. To meet the target initiated by the Office of Management and Budget, the Department has initiated six pioneer projects as alternatives to A-76. The Army's "Third Wave" is an example of our new aggressive approach to identify the best way to do business. We will also announce an additional 10,000 traditional A-76 initiatives this fiscal year. The Services will submit their plans to meet the President's management initiative objectives through the use of A-76 and alternatives in their fiscal year 2005 Program Objectives Memoranda submissions.

Consistent with our approach of focusing on our core competencies, the Department believes our security guard functions could be better accomplished by contractors, freeing our military and civilians to focus on other tasks that will enable us to fight and win wars. We remain supportive of repealing the restriction in 10 U.S.C. 2465 that prohibits the Department from contracting for security guards. The current provision inhibits the Department's ability to quickly increase or decrease the number of security guards, as threat conditions warrant. This provision would provide increased flexibility as the Department continues to enhance anti-terrorism/force protection measures.

TRANSFORMING BASES AND INFRASTRUCTURE

One of the most effective tools we have to transform the military is through the BRAC process. From 1988 through 1995, approximately 387 closure or realignment actions were approved, and the Department has completed each action within its respective statutory deadline. We have rationalized much of our infrastructure through the previous BRACs – but much more needs to be done. We believe the Department has anywhere from 20 to 25 percent excess capacity in its facilities. By removing that excess capacity we hope to save several billion dollars annually. For instance, prior BRAC actions have resulted in net savings to the Department – to the taxpayer – of approximately \$17 billion, with annual recurring savings of approximately \$6 billion.

Continuing to operate and maintain facilities we no longer need diverts scarce resources that could be better applied to higher priority programs – like improving readiness, modernization and quality of life for our Service members. We must utilize every efficiency in the application of available resources to ensure we maintain just what we need to accomplish our missions. In the wake of the attacks of September 11, 2001, the

imperative to convert excess base capacity into warfighting ability is enhanced, not diminished.

However, achieving savings is not the only reason to realign and close bases. The more important reason is to enable us to attain the right mix of bases and forces within our warfighting strategy as we transform the Department to meet the security challenges of the 21st century. Transformation requires rationalizing our base structure to better match the force structure for the new ways of doing business.

Congress authorized a Base Realignment and Closure in 2005 to accomplish this “base transformation”. BRAC 2005 should be the means by which we reconfigure our current infrastructure into one in which operational capacity maximizes both warfighting capability and efficiency. Through BRAC, we will eliminate excess capacity that drains our scarce resources from defense capability.

The process will not be simply a process to reduce capacity in a status-quo configuration, but rather, as the foundation to transformation, it will allow us the opportunity to examine a wide range of options for stationing and supporting forces and functions to make transformation what it truly should be – a “re-tooling” of the base structure to advance our combat effectiveness and make efficient use of our resources. A primary objective of BRAC 2005 process is to examine and implement opportunities for greater joint activity.

Our installations transformation is not limited to the United States. We also are assessing our facilities overseas to determine the proper size and mix. Since 1990, the Department of Defense has returned or reduced operations at about 1000 overseas sites, resulting in a 60 percent reduction in our overseas infrastructure and a 66 percent reduction in Europe, in particular, and we continue to review overseas basing requirements of the Combatant Commanders and examine opportunities for joint use of facilities and land by the Services, consolidation of infrastructure, and enhanced training.

CONCLUSION

Our facilities continue to recover, and we are seeing the results of investments made over the last several years. The Defense Facilities Strategic Plan and our installations management approach has provided a framework that enables us to focus on our overarching goals: taking care of our people, taking care of our facilities and enhancing our business processes. We have made significant progress toward providing quality housing for our service members, and we are now focused on improving the work environment.

BRAC 05 is our most important initiative to help us accomplish this. By consolidating, realigning and reducing unneeded infrastructure, the Department can focus investments on maintaining and recapitalizing what we actually require, resulting in ready facilities for the warfighters while more prudently using the taxpayer’s money.

As we prepare to rationalize our base structure, we also are addressing encroachment issues that impact our ability to effectively utilize our test and training ranges. The Readiness and Range Preservation Initiative is identifying solutions to these challenges. We have developed a plan of action and are proceeding with implementation. A key element of the plan is our proposed legislation that combines military readiness with environmental stewardship.

Our Real Property Enterprise System (RPES) efforts will result in much improved and standardized business practices while enhancing our financial stewardship. Market research and solution assessment should be complete by the end of this fiscal year with pilot fielding of a new system(s) or modification to existing systems to follow.

In closing, Mr. Chairman, I sincerely thank you for this opportunity to outline our successes in military facilities and review our plans for the future. We appreciate your strong support of our military construction program, and I look forward to working with you as we transform our infrastructure.