

GAO

Report to the Chairman, Subcommittee
on National Security, International
Affairs, and Criminal Justice, Committee
on Government Reform and Oversight,
House of Representatives

April 1996

MILITARY BASES

Closure and Realignment Savings Are Significant, but Not Easily Quantified





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-270646

April 8, 1996

The Honorable William H. Zeff, Jr.
Chairman, Subcommittee on National Security,
International Affairs, and Criminal Justice
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

At your request, we examined cost and savings estimates for past base realignment and closure (BRAC) actions. Specifically, we are reporting on (1) the extent to which the Department of Defense (DOD) is achieving actual savings from BRAC and (2) the adequacy of DOD's process for developing the cost and savings estimates reported in its annual budget submissions.

Background

The Congress passed initial legislation in October 1988 to bring DOD's base structure into line with its smaller post-Cold War force structure. Generally, the process, as modified by subsequent legislation, called for (1) establishing independent commissions to recommend installations for realignment or closure and (2) implementing the commissions' recommendations within 6 years of the date the President sends the commissions' recommendations to the Congress.

The realignment of underutilized bases and closure of unnecessary bases were expected to result in significant savings, primarily from reduced base support costs. The February 1992 DOD Base Structure Report defined base support costs as the overhead cost of providing, operating, and maintaining the defense base structure, including real property maintenance and repair costs, base operations costs, and family housing costs. According to historical information in DOD's Future Years Defense Program (FYDP) database, in fiscal year 1988 base support costs totaled \$41 billion.¹ During that year, most base support costs were paid from the operations and maintenance account (54 percent); the military personnel account (23 percent); and the family housing account (10 percent).

¹For consistency, we converted all cost data to fiscal year 1996 dollars using deflators in the DOD Comptroller's March 1995 National Defense Budget Estimates for Fiscal Year 1996.

The Congress recognized that an up-front investment was necessary to achieve the savings and established two accounts² to fund certain implementation costs. These costs included (1) constructing new facilities at gaining bases to accommodate organizations transferred from closing bases, (2) remediating environmental problems on closing bases, and (3) moving personnel and equipment from closing to gaining bases. In addition, revenue generated when land at closing bases is sold is deposited in the BRAC accounts and used to offset one-time implementation costs. Moreover, the legislation required that DOD submit annual budgets estimating the cost and savings of each closure or realignment, as well as the period in which savings were to be achieved.

According to its February 1995 budget submission, DOD estimated that, for the first three BRAC rounds, one-time implementation costs will total \$16.3 billion and savings will total \$16.1 billion, for a net cost of \$189.6 million over the period.³ According to DOD, the \$16.1 billion in estimated savings have been or will be reflected as reductions in DOD component appropriation accounts. Once the implementation of the three BRAC rounds is completed in fiscal year 1999, DOD estimates that annual net savings will be \$4.1 billion.

Results in Brief

Our analysis of base support costs in the FYDP and at nine closing installations indicates that BRAC savings should be substantial. However, DOD's systems do not provide information on actual BRAC savings. Therefore, the total amount of actual savings is uncertain. If DOD does not fully achieve estimated BRAC savings, it will affect DOD's ability to fund future programs at planned levels.

DOD has complied with the legislative requirement for submitting annual cost and savings estimates, but there are limitations to the submissions' usefulness. For example, the Air Force's savings estimates were not based on budget-quality data, and the Army's estimates excluded reduced military personnel costs that the Navy and the Air Force included in their estimates. Further, BRAC cost estimates excluded more than \$781 million in economic assistance to local communities as well as other costs.

²There are two BRAC accounts. BRAC I was established to fund base closures in the 1988 round. BRAC II was established to fund base closures in the 1991, 1993, and 1995 rounds.

³Budget years for BRACs I through III cover fiscal years 1990 through 1999. Budget years for each are as follows: BRAC I—fiscal years 1990-95; BRAC II—fiscal years 1992-97; and BRAC III—fiscal years 1994-99.

Consequently, the Congress does not have an accurate picture of the savings achieved by the BRAC process.

BRAC Savings Should Be Substantial, but Are Difficult to Quantify

Our analysis of the FYDP indicates that DOD plans to substantially reduce spending for base support programs. Furthermore, our analysis of operations and maintenance costs at nine closing installations indicates that actual base support costs have been reduced at those installations and therefore savings should be substantial. However, the DOD FYDP and service accounting systems are not configured to provide information concerning actual BRAC savings, and failure to achieve them would affect the quality of base support services or DOD's ability to fund other programs.

Overall Base Support Costs Have Been Reduced

Table 1 shows that by fiscal year 1997 DOD expects to reduce annual base support costs by about \$11.5 billion from a fiscal year 1988 baseline. The cumulative reduction over the period is about \$59 billion. DOD's information system does not indicate how much of the reduction is due to BRAC versus force structure or other changes. In addition, an Office of the Deputy Assistant Secretary of Defense (Installations) official stated that DOD is reviewing the classification of base support programs in the FYDP, which could affect future analyses.

Table 1: Analysis of Base Support Cost Reduction From Fiscal Years 1988-97

| Fiscal year 1996 dollars in billions | | | |
|--------------------------------------|---------------------------------|---------------------------|----------------------|
| Fiscal year | Base support costs ^a | Change from 1988 baseline | Cumulative reduction |
| 1988 | \$41.0 | 0 | 0 |
| 1989 | 40.1 | \$0.9 | \$0.9 |
| 1990 | 38.3 | 2.7 | 3.6 |
| 1991 | 37.9 | 3.1 | 6.7 |
| 1992 | 36.7 | 4.3 | 11.0 |
| 1993 | 34.2 | 6.8 | 17.8 |
| 1994 | 32.4 | 8.6 | 26.4 |
| 1995 | 30.6 | 10.4 | 36.8 |
| 1996 | 30.3 | 10.7 | 47.5 |
| 1997 | 29.5 | 11.5 | 59.0 |

^aDoes not include base support costs paid by the Defense Business Operations Fund (DBOF) and includes only those military construction costs that are related in the FYDP to base operations and real property programs.

Our analysis of the FYDP shows that, within reduced overall base support spending levels, DOD plans to increase average spending on family housing from \$1,880 to \$2,730 for each active duty military person between fiscal years 1988 and 1997. Average spending for the remaining base support activities is expected to remain relatively stable over the 10-year period. However, table 2 shows that, over the period, DOD's force structure is expected to be reduced by 680,000 military personnel and average base operations and real property support costs are expected to fall slightly to about \$16,600 per person.

Table 2: Analysis of Base Support Costs, Excluding Family Housing Costs, and Military Personnel Levels for Fiscal Years 1988 Through 1997

| Fiscal year | Base operations and real property support costs (FY96 dollars in billions) | Number of active duty military personnel (thousands) | Average costs per person (FY96 dollars in thousands) |
|--------------------|---|---|---|
| 1988 | \$36.9 | 2,209 | \$16.7 |
| 1989 | 36.0 | 2,202 | 16.3 |
| 1990 | 34.6 | 2,143 | 16.1 |
| 1991 | 34.1 | 2,077 | 16.4 |
| 1992 | 32.6 | 1,880 | 17.3 |
| 1993 | 30.1 | 1,776 | 16.9 |
| 1994 | 28.7 | 1,678 | 17.1 |
| 1995 | 27.0 | 1,588 | 17.0 |
| 1996 | 26.2 | 1,550 | 16.9 |
| 1997 | 25.3 | 1,529 | 16.6 |

Information Concerning Actual Savings Is Limited

Key requirements for calculating actual BRAC savings include information on decreased support costs at closing bases and the offsetting increases at gaining bases. DOD cannot provide accurate information on actual savings because (1) information on base support costs was not retained for some closing bases and (2) the services' accounting systems cannot isolate the effect on support costs at gaining bases. DOD officials stated that designing and implementing a system for collecting actual BRAC savings information would be difficult and extremely expensive, and they questioned the value of such a system.

According to DOD officials, the accounting systems were not designed to isolate the impact of specific initiatives, such as BRAC, on base support costs. With the disestablishment of the 509th Bombardment Wing and closure of Pease Air Force Base, for example, the Wing's FB-111 bombers

were placed in storage as part of a force structure change, while its KC-135 refueling aircraft were transferred to five gaining bases along with their crews, support personnel, and equipment. The largest group of aircraft, six KC-135s, was transferred to Fairchild Air Force Base. According to Air Force officials, their systems would not allow them to determine

- how much of the reduction in Pease Air Force Base support costs was due to the changing strategic bomber force structure as opposed to the closure of Pease Air Force Base and
- how much of any increase in Fairchild Air Force Base support costs was due to the arrival of Pease aircraft. Officials stated that, since the arrival of the 6 KC-135 aircraft from Pease, Fairchild has received over 50 KC-135 tankers from other bases.

The Army Audit Agency had similar difficulties in determining the actual savings from the closure of 10 Army BRAC I installations. According to the Agency's November 1995 report, the Army's system of management controls did not ensure that adequate documentation was retained to determine actual savings or reliable estimates of savings. The report stated, for example, that auditors were unable to locate the accounting records necessary to determine base support cost savings at one site. In addition, they could not determine incremental base support cost increases at gaining installations because the Army's accounting system did not contain all the necessary information.

We analyzed base support costs paid from the operations and maintenance account for the eight installations for which data were available. The analysis shows that the closures will have a combined net cost of \$7.6 million for the implementation period, and an annual recurring savings of \$212.8 million thereafter. As table 3 shows, four bases (Chase Field, the Long Beach Naval Hospital, Pease, and Williams) are expected to have a net savings at the end of the implementation period, indicating a payback period of less than 6 years. The longest payback period is Fort Devens at about 11 years.

Table 3: Base Support Savings and BRAC Implementation Costs for Eight Installations

| Fiscal year 1996 dollars in millions | | | | |
|--|-----------------------------|--|----------------------------|--------------------------|
| Installation | 6-year base support savings | 6-year implementation costs ^a | 6-year net savings/(costs) | Annual recurring savings |
| Bergstrom Air Force Base ^b | 0 | 0 | 0 | 0 |
| Chase Field Naval Air Station | \$74.0 | \$28.8 | \$45.2 | \$15.1 |
| Fort Benjamin Harrison | 163.6 | 170.4 | (6.8) | 35.4 |
| Fort Devens | 83.8 | 169.2 | (85.4) | 24.5 |
| Long Beach Naval Hospital | 27.7 | 10.3 | 17.4 | 7.0 |
| Moffett Field Naval Air Station ^c | 98.6 | 137.2 | (38.6) | 25.2 |
| Pease Air Force Base | 178.5 | 159.4 | 19.1 | 38.1 |
| Sacramento Army Depot | 76.9 | 144.5 | (67.6) | 36.4 |
| Williams Air Force Base | 162.0 | 52.9 | 109.1 | 31.1 |
| Total | \$865.1 | \$872.7 | \$(7.6) | \$212.8 |

^aImplementation costs were based on information in DOD's 1995 budget submission.

^bBaseline base support cost data were not available.

^cCurrent base support costs for reserve and other units at Moffett Field were not considered since those costs were excluded from the baseline provided by the Navy.

Our estimates reflect force structure savings at closing bases and do not reflect incremental base support cost increases at gaining bases unless they were readily identifiable. Additionally, estimated implementation costs do not include economic assistance costs to the area affected by the closure or other costs not reported in DOD's budget submission. Including these factors would reduce the net savings. However, our estimates also do not reflect savings due to reduced base support costs paid from the military personnel and military construction accounts or reduced family housing costs, which would increase savings. For example, at the three Air Force bases we reviewed, the Air Force estimated military personnel savings at \$669.6 million over the implementation period and \$156.6 million annually thereafter.

BRAC Savings Are Essential to Future Defense Programs

DOD expects BRAC savings to provide much of the funding necessary for quality-of-life initiatives and defense modernization efforts. In November 1994, for example, the Secretary of Defense stated that the fiscal year 1996 DOD budget will increase funding by \$94 million for community and family support projects, including increasing eligibility for child care support by up to 38,000 families and strengthening programs aimed at preventing family violence.

Additionally, in January 1996, the Secretary stated that DOD will need to increase modernization programs to ensure the long-term readiness of defense forces. According to the Secretary, failure to achieve savings from earlier initiatives required DOD to restructure the budget. DOD stated that estimated savings from BRAC are taken out of the services' budgets up front. This is the same process that was followed in implementing budget reductions under the defense management review initiatives. To the extent BRAC savings are not realized at the levels that were anticipated, it could have similar effects on DOD's FYDP.

Limitations on DOD's Cost and Savings Estimates

DOD's savings estimates are inconsistent because the services used different estimating methodologies, and are unreliable because the services excluded some savings and did not update some estimates to reflect revised closure schedules. In addition, DOD's cost estimates are incomplete because the services did not include many BRAC-related nondefense costs.

Savings Estimates Were Inconsistently Developed and Are Unreliable

The methodologies used for developing the savings estimates differed among the services. The Air Force used savings estimates that were developed through the Cost of Base Realignment Actions (COBRA) model,⁴ with adjustments for inflation and recurring cost increases at gaining bases, as the basis for its estimates. The adjustments accounted for differences in the way inflation and recurring costs were treated in the COBRA and budget estimates. According to an Air Force official, however, major commands and installations were not requested to provide budget-quality data to revise the COBRA savings estimates for their bases.

The Navy, on the other hand, used its Comptroller's analyses of expected increases and decreases in each base's costs, but no documentation was available to show how specific estimates were calculated. For example,

⁴According to DOD, COBRA provides a methodology for consistently estimating costs and savings from alternative closure options and was not intended to provide budget-quality estimates.

the Navy's estimate for the Long Beach Naval Hospital savings assumed, among other things, that the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) costs at gaining bases would be reduced by about \$143 million over the 6-year implementation period and about \$38 million for each year thereafter. The Navy Comptroller was unable to provide documentation to show how that estimate was calculated.

The Army based its estimates on detailed implementation plans prepared by major commands after the BRAC Commissions announced their decisions. Unlike the Navy, however, the Army eliminated CHAMPUS savings from its estimates. Also, unlike the other services, the Army excluded savings from military personnel reductions from its BRAC II and III savings estimates. The Air Force, the Navy, and DOD agencies estimated that BRAC II and III would eliminate the need for about 28,000 military personnel and save about \$3.9 billion during the 6-year implementation periods. An Army official stated that military personnel savings were excluded because the reductions had already been recognized in previous initiatives. Closure implementation plans for the three Army bases we examined stated that the installations were authorized 475 military personnel for base support functions.

Further, a Navy official stated that Navy estimates were reviewed annually and revised during the budget review process. According to Army and Air Force officials, their savings estimates are not routinely updated, even though some bases close faster than initial estimates, thereby resulting in increased savings. For example, the 1995 Fort Benjamin Harrison savings estimate, which has not changed since it was initially submitted in 1992, does not reflect significant operation and maintenance savings until fiscal year 1995. Our analysis indicates that savings started in fiscal year 1992 and totaled over \$92 million by fiscal year 1995.

According to a DOD Comptroller official, the Office of the Secretary of Defense provided no additional guidance to the services on developing savings estimates other than the guidance on preparing COBRA estimates. He said that DOD headquarters and the services focused most of their attention on monitoring and managing BRAC costs rather than savings.

Cost Estimates Are Incomplete

In March 1996, we reported that DOD's cost estimates for closing maintenance depots excluded some BRAC-related costs that have been or

will be paid from DBOF or the operation and maintenance account.⁵ For example, the Navy estimates that, through fiscal year 1995, closing naval aviation depots and shipyards would have an accumulated operating loss of about \$882 million that would be recouped from its operation and maintenance account (\$695 million) or written off within DBOF (\$187 million). Some of this loss was directly related to depot closures. We also reported that closing Army depots had closure-related costs and losses that were financed by DBOF. In fiscal year 1993, for example, the Sacramento Army Depot charged about \$12 million in closure-related costs, including employees' voluntary separation incentive pay,⁶ to DBOF instead of the BRAC account. The Navy and other organizations charge separation incentive pay to their BRAC account. In addition to depot-related closure costs, DOD estimates do not include \$781 million for the following BRAC-related economic assistance costs, much of which is non-DOD:

- The Economic Development Administration began providing funds for BRAC-related activities in fiscal year 1992, and has obligated about \$371 million for them between fiscal years 1992 and 1995.
- The Federal Aviation Administration provided about \$182 million to BRAC bases through fiscal year 1995.
- The Department of Labor said it could not readily tell how much it spent on BRAC-related activities between 1988 and 1990. It spent about \$103 million on BRAC-related activities from fiscal years 1991 through 1995. This does not include funds distributed to states under block grants or funds spent on DOD demonstration projects, such as projects at Philadelphia and Charleston, because these funds are administered by the states.
- DOD's Office of Economic Adjustment provided \$125 million to BRAC bases from fiscal years 1988 to 1995.

In addition, DOD paid about \$500 million in unemployment compensation to civilian employees who lost their jobs from fiscal years 1990 through 1995. According to DOD, the BRAC process resulted in the elimination of about 31,000 civilian positions during that period, which indicates that some unemployment costs could be categorized as BRAC related.

Because much of the information necessary to prepare comprehensive and reliable savings estimates for all the installations is no longer available, we

⁵Closing Maintenance Depots: Savings, Workload, and Redistribution Issues (GAO/NSIAD-96-29, Mar. 4, 1996.)

⁶To encourage voluntary departures, DOD gave employees at closing bases up to \$25,000 if they voluntarily retired or resigned. According to its fiscal year 1995 budget submission, the Army used its operation and maintenance account to reimburse DBOF for voluntary separation incentives in fiscal year 1994, and it increased customer rates to pay for these costs in fiscal year 1995.

are not recommending the revision of these estimates. However, should there be future BRACS, we believe the Secretary of Defense should provide and the services should implement guidance to ensure estimates are comprehensive, consistent, and well-documented.

Recommendation

We recommend that the Secretary of Defense, at a minimum, explain the methodology used to estimate savings in future BRAC budget submissions. Also, the submissions should note that all BRAC-related costs are not included.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD indicated that the inconsistencies in its budget savings estimates we cited were the result of an attempt to give the services reporting flexibility. DOD acknowledged that cost estimates in BRAC budget submissions do not include some costs that were paid from other DOD accounts or from non-DOD appropriations. DOD agreed that the BRAC budget submissions should include an advisory statement that economic assistance and non-DOD costs are not included. DOD also indicated that it was willing to consider including a brief statement that the BRAC budget submissions are based on the initial cost and savings estimates, which are subsequently refined through the use of site surveys. However, DOD did not believe that using different methodologies was a weakness that needed to be reported.

To clarify the inconsistencies we found among the services, we have expanded the report to show the differences in (1) the extent to which COBRA estimates were updated and (2) the treatment of military personnel and CHAMPUS savings in the services' budget estimates. We believe that eliminating the inconsistencies in the preparation of savings estimates for future BRACS would enhance the usefulness of the budget submissions. However, we deleted the term weakness in describing the differences in the various methodologies. With regards to non-DOD costs, the information on many excluded costs is readily available. For example, information on \$781 million in BRAC-related economic assistance costs incurred through fiscal year 1995 was readily available from various agencies. We also believe that including information from the other agencies would give the Congress a more comprehensive overview to use in evaluating the success of BRAC implementation. DOD comments are presented in their entirety in appendix I.

Scope and Methodology

We reviewed reports, documents, and legislation relevant to BRAC cost and savings estimates. We also interviewed BRAC and Comptroller officials from the Office of the Secretary of Defense and the military services. From officials of the Departments of Labor and Commerce and the Federal Aviation Administration, we obtained data on their BRAC-related costs.

Our examination of cost and savings estimates focused on BRACS I through III because DOD had not yet developed BRAC IV estimates at the time we initiated our review. In addition, we focused our analysis of actual costs and savings on BRACS I and II because many BRAC III installations were still being closed.


For our analysis of actual savings, we analyzed trend data from DOD's historical and current FYDP databases, which were updated through June 1995. We identified base support costs by examining program element titles and discussing the costs with officials in DOD's Office of Program Analysis and Evaluation and from the military services. We did not assess the reliability of the FYDP database.

We also attempted to obtain information on actual base support costs for nine closures. We selected the closures from a listing of BRACS I and II to obtain three closing installations from each of the military services, and to ensure each closing installation was from a different major command. For one of the nine installations selected, base support cost data was not available. Where possible, we obtained actual base support cost data for the operation and maintenance account from the responsible major command. Our estimates of base support cost reductions at closing installations and incremental increases at gaining bases were based on major command estimates or our analysis of trends in the closing and gaining bases' actual support costs. We estimated fiscal years 1995 and 1996 costs on the basis of fiscal year 1994 costs. Our analysis of the nine bases cannot be projected to all BRAC bases. While overall trends indicate substantial savings, it is possible that net savings may not be achieved at an individual location.

We conducted our work from March 1995 to February 1996 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days after its issue date. At that time, we will send copies to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request. If you have any questions concerning this report, please call me on (202) 512-8412. Major contributors to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal line extending to the right.

David R. Warren, Director
Defense Management Issues

Contents

| | |
|---|----|
| Letter | 1 |
| Appendix I Comments From the Department of Defense | 16 |
| Appendix II Major Contributors to This Report | 22 |
| Tables | |
| Table 1: Analysis of Base Support Cost Reduction From Fiscal Years 1988-97 | 3 |
| Table 2: Analysis of Base Support Costs, Excluding Family Housing Costs, and Military Personnel Levels for Fiscal Years 1988 through 1997 | 4 |
| Table 3: Base Support Savings and BRAC Implementation Costs for Eight Installations | 6 |

Abbreviations

| | |
|---------|--|
| BRAC | base realignment and closure |
| CHAMPUS | Civilian Health and Medical Program of the Uniformed Services |
| COBRA | Cost of Base Realignment Actions |
| DBOF | Defense Business Operations Fund |
| DOD | Department of Defense |
| FYDP | Future Years Defense Program |

Comments From the Department of Defense



ECONOMIC SECURITY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
3300 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3300

14 FEB 1996

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is in response to your December 21, 1995, report: OSD Case 1073 / GAO Code 709135, "MILITARY BASES: Closure And Realignment Savings Are Significant, But Not Easily Tied To Specific Bases". The Department of Defense is pleased that the GAO has confirmed that the Base Closure and Realignment (BRAC) recommendations have generated significant savings. The Department of Defense partially concurs with the GAO report.

The Department's detailed response is enclosed, but I would like to summarize it here:

- With few exceptions, the "inconsistencies" in the way the Military Departments develop BRAC cost and savings estimates are not inconsistencies, but an attempt to provide the Services with the flexibility to adapt the BRAC process to their different missions, facilities and equipment.
- The Department's report to Congress, The Relationship Between Base Closures/Realignments and Non-DoD Federal Costs, September 1994, found that it would be impossible to obtain accurate estimates for costs to other Federal programs; the Department has no basis for forecasting other Federal costs associated with base reuse activities; and, the increased costs to other departments and agencies would not be large enough to significantly change BRAC costs and savings.
- Although the Services make every effort to capture BRAC savings as accurately as possible, there is no established mechanism in DoD's (or any other Federal Agency's) accounting system to track savings. The cost to develop such a system would far outweigh the benefit.

Thank you for the opportunity to provide the Department's comments on the draft report.

Robert E. Bayer
Deputy Assistant Secretary of Defense
(Installations)

Enclosure



DoD RESPONSE TO
GAO DRAFT REPORT - DATED DECEMBER 21, 1995
(GAO CODE 709135) OSD CASE 1073

**“MILITARY BASES: CLOSURE AND REALIGNMENT SAVINGS ARE SIGNIFICANT,
BUT NOT EASILY TIED TO SPECIFIC BASES”**

FINDING A: Savings Estimates Were Inconsistently Developed and Are Unreliable. The GAO reported that the methodologies used for savings estimates differed among the Services. The GAO noted that the Air Force used Cost of Base Realignment Actions (COBRA) model estimates prepared for the Base Realignment and Closure (BRAC) Commission, with adjustments for inflation and increased costs at gaining bases, as its budget savings estimates. The GAO explained that the Army based its estimates on detailed implementation plans prepared by major commands after BRAC decisions were announced. Concerning the Navy, the GAO found that Comptroller analyses of expected increases and decreases in each bases' costs were used, but no documentation was available to show how specific estimates were calculated. The GAO reported that Air Force and Navy estimates included savings from military personnel reductions, but Army estimates did not. The GAO found that savings estimates were not routinely updated, even though some bases have been closed faster than initial estimates, thereby resulting in increased savings. The GAO reported that according to a DoD Comptroller official, the Office of the Secretary of Defense provided no additional guidance to the Services on developing budget savings estimates, other than the guidance provided on the preparation of COBRA estimates. The GAO explained that DoD headquarters and the Services focused most of their attention on monitoring BRAC and managing costs, rather than savings. (p. 3, pp. 4-6/ GAO Draft Report)

DoD Response: Partially Concur. With regard to the methodologies used by the Services to estimate savings, our observation of the Services' BRAC processes has shown us that while the individual Services may differ somewhat in their methodology, each is expected to base its BRAC budget submission on site surveys of the affected installations. These site surveys, made after the BRAC recommendations have been approved, use the initial BRAC implementation plans as a basis, but the COBRA cost and savings estimates are to be adjusted as a result of the information gathered in the surveys.

The GAO draft report also cites, as an inconsistency, differences in the accounting for personnel savings by the Army and the Air Force. Guidance to the Services with regard to personnel savings is quite clear: force structure reductions taken as a result of non-BRAC actions are not to be counted as BRAC savings; base operating support positions eliminated as a result of a base closure or realignment action should be counted as a BRAC savings. If the Army and Air Force personnel reductions were in fact base operating support positions, they should have been counted as BRAC

Now on pp. 7-8.

Appendix I
Comments From the Department of Defense

savings. If these reductions were not base operating support positions, or were the result of previous force structure reduction initiatives, including them as BRAC personnel savings was wrong. The example cited by the GAO draft report however, does not provide sufficient information to determine if either varied from established guidance.

While there may be isolated instances where the Services may have calculated BRAC savings differently, it is misleading to make a general statement that the Services used "inconsistent methodologies". Inconsistent methodology is only a problem if the inconsistency is within a service.

The GAO draft report also states that the Navy Comptroller was unable to provide documentation to support estimates of expected increases and decreases in each affected bases' costs. Specifically, the GAO draft report states that the Navy Comptroller was unable to provide documentation to support the BRAC-related CHAMPUS cost reduction estimates. Our experience with regard to BRAC CHAMPUS costs is that the Services try to distribute their BRAC-excessed medical personnel to areas with high off-base health care costs. This reduces the number of beneficiaries that must use CHAMPUS in those high cost areas and therefore reduces the CHAMPUS costs in that area.

The GAO draft report also states that, according to a "...DoD Comptroller official, the Office of the Secretary of Defense provided no additional guidance to the Services on the development of budget savings estimates, other than the guidance provided on the preparation of COBRA estimates." The Department believes that the guidance provided for the development of BRAC savings estimates is sufficient to project BRAC savings in the BRAC budget submissions. These savings estimates should, however, be refined to reflect the results of site surveys and the most current information available during budget preparation. This guidance will be made more explicit in future BRAC budget preparation guidance.

With regard to guidance on the development of initial cost and savings estimates, the OSD, in various policy memoranda:

- Directed the Military Departments to use the COBRA model to calculate cost and savings estimates. A comprehensive 138 page COBRA users manual was provided which explained in detail what information was to be used in the model. The Services were authorized to deviate from published standard cost factors for cost and savings calculations when service experience pointed to a more accurate indicator.
- Directed the Military Departments to not count force structure reductions as personnel savings in their analyses.

- Told the Military Departments how to account for MILCON cost avoidance savings.
- Told the Military Departments how to account for environmental compliance cost avoidance savings.

The GAO draft report also states that savings estimates are not routinely updated and that DoD headquarters and the Services focused most of their attention on monitoring costs, rather than savings. With regard to this statement, it is important to remember that the Department's budgeting process is designed to identify costs; BRAC savings serve only as memo entries in the Services' BRAC budget submissions. Although the Services make every effort to capture these savings as accurately as possible, there is no established mechanism in DoD's (or any other Federal Agency's) accounting system to track savings. In reality these BRAC savings are taken from the Services' budgets up front, often during the Program Budget Decision process.

FINDING B: Cost Estimates Are Incomplete. In a report to be released in January 1996, the GAO explained that it will report that DoD cost estimates for closing maintenance depots excluded some BRAC-related costs that are paid from the Defense Business Operations Fund (DBOF) and the operations and maintenance account. The GAO also reported that closing Army Depots had closure-related costs and losses that were financed by DBOF. The GAO found that estimates did not include \$779 million for BRAC-related economic assistance costs, much of which is non-DoD. (p. 3, pp. 6-7 GAO Draft Report)

DoD Response: Partially Concur. DoD must defer comment on maintenance depot costs and savings until the yet-to-be-released GAO report on DoD cost estimates for closing maintenance depots has been received and reviewed.

With regard to the absence of non-DoD costs in the Services' BRAC budget submissions, it is true that costs such as economic assistance to local communities have not been included in either the COBRA BRAC cost and savings estimates or the Services' BRAC budget submissions. Estimates of economic assistance requirements are impossible to predict during the BRAC selection process and are therefore not included in the COBRA cost and savings estimates. To date, no BRAC funds have been used to provide economic assistance to affected communities. This money is provided from an Office of Economic Adjustment (OEA) appropriation and is not included in the BRAC budget submissions.

It has been the Department's position throughout each of the BRAC rounds that non-DoD costs will not be included in either the BRAC cost estimates or BRAC budget submissions. These costs are excluded for various reasons, all of which have been explained in the Department's responses to previous GAO reports and, most recently, in the Department's report to Congress, The Relationship Between Base Closures/Realignments and Non-DoD Federal Costs, September 1994. This report found that it would be impossible to obtain accurate estimates for costs to other Federal

Now on pp. 8-10.

programs within the framework of the BRAC process. The report also noted that since base reuse decisions generally are made long after the BRAC process is completed, the Department has no basis for forecasting other Federal costs associated with base reuse activities. Finally, the report noted that even where BRAC actions could result in cost increases to other Federal departments and agencies, these costs would amount to a small fraction of BRAC savings, even under worst-case assumptions. Hence, the increased costs to other departments and agencies would not be large enough to significantly change BRAC costs and savings.

FINDING C: Information Concerning Actual Savings Is Limited. The GAO reported that key requirements for calculating actual BRAC savings include information on the reduction in support costs at closing bases and the offsetting increase in support costs at bases gaining units. The GAO concluded that the DoD is unable to provide accurate information on actual BRAC savings because: (1) information on base support costs was not retained for some closing bases; and (2) the Services' accounting systems cannot isolate the effect on support costs at gaining bases. The GAO explained that DoD officials stated that designing and implementing a system for collecting actual BRAC savings information would be difficult and extremely expensive, and questioned the value of such a system. The GAO further reported that according to DoD official, accounting systems were not designed to isolate the impact of specific initiatives, such as BRAC, on base support costs. (pp. 3-4, pp. 8-11/GAO Draft Report)

DoD Response: Concur. As we stated in our response to Finding A, the Department's budgeting process is designed to identify costs; BRAC savings serve only as memo entries in the Services' BRAC budget submissions. Although the Services make every effort to capture these savings as accurately as possible, there is no established mechanism in DoD's (or any other Federal Agency's) accounting system to track savings. In reality, since these BRAC savings are taken from the Services' budgets up front (often during the Program Budget Decision process) the initial savings estimates are realized. The BRAC budget process, which focuses on costs, tracks the increases and decreases in costs that offset the initial savings estimates.

FINDING D: Overall DoD Base Support Costs Have Been Reduced. The GAO reported that the DoD expects to reduce annual base support costs by about \$11.5 billion between FY 1988 and FY 1997. The GAO explained that the cumulative reduction over the period is about \$59 billion, but the DoD information system does not indicate how much of the reduction is due to BRAC versus force structure or other changes.

According to the GAO, an analysis of the Future Years Defense Program (FYDP) showed that, within reduced overall base support spending levels, the DoD plans to increase spending on family housing from \$1,880 to \$2,730 for each active duty military person between FY 1988 and FY 1997. The GAO noted that average spending for the remaining base support activities is expected to remain relatively stable over the 10-year period. However, the GAO reported that, over the period, DoD force structure is expected to be reduced by 680,000 military personnel, and average base operations

Now on pp. 4-6.

Appendix I
Comments From the Department of Defense

Now on pp. 3-4.

and real property support costs are expected to fall slightly to about \$16,600 per person. The GAO reported that according to DoD officials, the BRAC savings have enabled the DoD to increase funding for quality of life initiatives. (pp. 3-4, pp. 11-13/GAO Draft Report)

DoD Response: Concur.

RECOMMENDATION: The GAO draft report recommends that the Secretary of Defense, at a minimum, explain the cost and savings weaknesses in future BRAC budget submissions. The GAO explained that the weaknesses should include the different methodologies used in the savings estimates and that the estimates are not routinely updated. Also, the submissions should note that all BRAC related costs are not included. (p. 13/GAO Draft Report)

Now on p. 10.

DoD Response: Partially Concur. The Department agrees that the BRAC budget submissions should include an advisory statement that economic assistance and non-DoD costs are not included. The Department is also willing to consider including in its BRAC budget submissions a brief statement explaining that the BRAC budget submissions are based on the initial cost and savings estimates which are subsequently refined through the use of site surveys to provide budget quality data.

The DoD does not agree with the GAO's contention that the use of different methodologies among the Services is a "weakness" and should be explained in the BRAC budget submissions. The minimal flexibility's afforded the Military Departments in the development of their BRAC cost and savings estimates allows them to adapt to the needs of their different missions, facilities and equipment.

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

James Wiggins
John Klotz
Richard Meeks
Barbara Wooten

San Francisco
Regional Office

John Schaefer
Eddie Uyekawa