

July 1, 1998

Honorable Strom Thurmond
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Section 2824 of the National Defense Authorization Act for Fiscal Year 1998 requests a report from the Department of Defense on the costs and savings associated with the four previous rounds of base closures and realignments. The legislation also requires the Congressional Budget Office (CBO) to review that report. The enclosure fulfills that requirement. In addition, I have enclosed a copy of CBO's response to a letter of April 17, 1998, from Senators Daschle and Lott and Congressman Gephardt.

Please contact me if you have any questions. The CBO staff contact is Lauri Zeman.

Sincerely,

June E. O'Neill

Enclosures

IDENTICAL LETTER SENT TO HONORABLE CARL LEVIN,
HONORABLE FLOYD SPENCE, AND HONORABLE IKE SKELTON

Review of
The Report of the Department of Defense
on Base Realignment and Closure

The Congressional Budget Office (CBO) has completed its review of *The Report of the Department of Defense on Base Realignment and Closure*, as required by section 2824(g) of the National Defense Authorization Act for Fiscal Year 1998. CBO finds that the report provides a clear and coherent summary of why the Department of Defense (DoD) believes that future BRAC rounds are necessary. Moreover, the report's basic message is consistent with CBO's own conclusions: past and future BRAC rounds will lead to significant savings for DoD. Nonetheless, the report is useful primarily as a summary of DoD's position, rather than as an analysis of BRAC issues. Although the roughly 2,000 computer-generated tables that accompany the report contain most of the specific data on past BRAC rounds that the Congress requested, the main text provides little analysis of those data or insight into the number and types of installations that might be closed in the event of future BRAC rounds.

Data Provided by DoD's Report

DoD's report provides most of the data requested by the law. Yet there were a few instances in which the department was unable to locate specific data or lacked information systems that were flexible enough to organize the data in the form that the Congress requested. For example, DoD was unable to locate the cost and savings estimates that it had originally given to the BRAC commissions, and it was unable to identify the BRAC funds spent on each type of Navy and defense agency installation.

The report also omits any specific information about the types and number of bases that might close as the result of future BRAC rounds. One explanation is that DoD may have been unwilling to make such projections because doing so might appear to prejudice the results of the BRAC process.

In addition, the firm measures of BRAC savings that were requested by the Congress do not—and indeed cannot—exist. That is because BRAC savings are really avoided costs: they are the difference between what DoD actually spent and what it would have had to spend in the absence of BRAC action. Because the latter is never actually observed, the figures for BRAC savings that DoD provides will never be firm measures, but must always be estimates.

The Costs of Implementing Previous BRAC Decisions

CBO did not attempt to verify DoD's estimates of the one-time costs of implementing past BRAC decisions. Those one-time costs (which include the costs of transferring or separating personnel, moving equipment, and constructing new facilities) represent actual expenditures and thus are easier to track than savings. Based on its current financial data, DoD concludes that the actual costs of implementing past BRAC decisions will be very close to those that it projected at the start of each round. DoD's initial estimate was that it would cost \$23 billion to fully implement the four BRAC rounds; today, that estimate is \$22 billion.¹

Although DoD might be capable of estimating the costs of BRAC decisions very accurately early in the BRAC process, CBO finds that the similarity between DoD's initial BRAC cost estimates and the current ones may be, in part, a self-fulfilling prophecy. The Congress appropriates funds for one-time implementation costs based largely on DoD's budget estimates. Because those BRAC funds are in designated accounts and cannot be used for non-BRAC purposes, BRAC expenditures may adjust to some extent to match the funds available.

In addition, not all BRAC-related costs are included in the \$22 billion estimate. For example, operating units sometimes bear unexpected costs when services at DoD facilities, such as equipment maintenance, are temporarily disrupted by BRAC actions. The \$22 billion figure also excludes any environmental cleanup or caretaker costs that DoD might incur after 2001, when the implementation periods specified by the Congress for the past four BRAC rounds will be complete. Payments made to assist communities and workers adversely affected by base closures are also omitted. (DoD estimates that those costs, which are paid by the Department of Labor, DoD's Office of Economic Adjustment, the Economic Development Administration in the Department of Commerce, and the Federal Aviation Agency, totaled about \$1 billion as of 1997.)

The Savings from Past BRAC Rounds

Consistent with current BRAC budget documents, DoD's report indicates that when the past four rounds are fully implemented, they will provide annual recurring savings of about \$5.6 billion (in constant 1999 dollars). That figure appears to be

1. Those figures are in current dollars, not adjusted for inflation. They represent the one-time costs that DoD expects to incur in closing and realigning bases during the six-year implementation period that the Congress has allowed for each BRAC round. They include environmental costs but exclude any revenues from land sales that result from BRAC actions. Although DoD initially expected to receive about \$4.1 billion in revenue from land sales as a result of past BRAC actions, it now expects that figure to be only \$0.1 billion.

reasonable. By comparison, CBO estimates that savings could be about \$5 billion annually.²

However, DoD's report does not document how the services and defense agencies derived the BRAC savings estimates that underlie the aggregate \$5.6 billion figure. Nor does it show that those estimates are consistent with the quantitative model (DoD's COBRA model) that DoD used during past BRAC deliberations and might use in any future BRAC round. Instead, DoD tries to show that its aggregate estimate is credible by presenting a new analysis based on aggregate data and by citing recent audit reports. Neither approach is very successful. For example, the new analysis in DoD's report (which identifies recurring annual savings of \$7 billion) is based on the same undocumented estimates of personnel reductions that the defense agencies and military departments use in their BRAC budgets. Because reductions in personnel costs account for over 80 percent of estimated BRAC savings, using those personnel numbers ensures that DoD's new estimate of savings will not differ widely from the estimates in the BRAC budget documents. Because the new analysis depends on those budget estimates it cannot be used to verify them.

DoD's use of audits to verify BRAC savings also suffers from serious weaknesses. For example, the DoD Inspector General's audit of 1993 BRAC actions found that savings exceeded DoD's budget estimates by about \$1.7 billion over the six-year implementation period.³ Yet almost all of that \$1.7 billion in additional savings came from a few special situations in which the effects of BRAC actions were confounded with those of imposed budget cuts, reductions in workload, or reductions in force structure. An audit can compare what DoD spent at different bases before and after BRAC actions, but—unlike models such as COBRA—it cannot disentangle the effects of BRAC from those of other factors.

Estimates of Excess Capacity

DoD's report indicates that the department will have excess capacity of over 20 percent at its U.S. bases after completing the four BRAC rounds. In its analysis, DoD compared the size of specific types of forces or workloads (measured, for example, by the number of aircraft or assigned personnel) with the size of the base structure that supports those forces or workloads (measured by the square feet of

2. DoD's estimate is based on the sum of the savings shown in the budget for the last year of the implementation period for each BRAC round. CBO's figure, which is in constant 1998 dollars, reflects trends in base support costs, adjusted for changes in the size of military forces. Past CBO reviews have also concluded that the savings from base closures and realignments are substantial. See Congressional Budget Office, *Closing Military Bases: An Interim Assessment*, CBO Paper (December 1996).

3. Office of the Inspector General, Department of Defense, *Costs and Savings for 1993 Defense Base Realignments and Closures*, Report No. 98-130 (May 6, 1998).

buildings or of apron space at airfields). DoD then estimated the amount of excess capacity by calculating the percentage reduction in the base structure that would result in the same ratios of forces to base structure that existed in 1989.

That approach is reasonable and, at least in the aggregate, yields a credible estimate. Yet it may not provide good estimates for particular categories of installations. DoD's estimates of the excess capacity for different categories of bases would be more credible if they were tested using a wider variety of indices for the size of forces and the base structure. The department's use of 1989 as a baseline may also be inappropriate for some types of installations. On the one hand, that approach could overstate the size of the required base structure—DoD might have had excess capacity in 1989, or it might need fewer bases today because it has consolidated service programs into defensewide activities. On the other hand, that approach could understate the amount of capacity required if some types of base support are truly a fixed cost, required regardless of the size of the force.

The Costs and Savings from Possible Future BRAC Rounds

According to DoD's report, additional BRAC rounds in 2001 and 2005 would, together, save \$3.4 billion (in constant 1999 dollars) every year after 2011. In addition, the report implies that the cumulative savings from those rounds would outweigh the one-time implementation costs before 2011. To make those estimates, DoD assumed that the annual profile of costs and savings for each of the two proposed BRAC rounds over their six-year implementation periods would match the average profile for the 1993 and 1995 BRAC rounds combined, adjusted for inflation.

Those assumptions are reasonable for planning. DoD may not be able to provide better estimates until the specific bases that would be affected by proposed future BRAC rounds are identified. Yet savings from future rounds could be less than DoD predicts if the excess bases that have not already been closed are those for which closure costs would be relatively high or recurring annual savings relatively low. Such a pattern could also extend the time required before the savings from the additional BRAC rounds would outweigh the costs. Yet even in that case the ultimate savings from future rounds could still be significant.

Improving Estimates of Costs, Savings, and Excess Capacity

DoD's report provides a clear summary of the department's perspective on BRAC issues and on the need for additional base closures. But it provides little new evidence or insight into those issues. A more substantive report would have provided

documentation for the estimates of BRAC savings that were submitted with the budget for fiscal year 1999 and a more detailed analysis of capacity issues.

In the future, DoD plans to keep better track of BRAC documents and of expenditures at bases before and after BRAC actions. Those steps would be useful. To the extent that implementation costs reflect actual DoD expenditures, improved financial records could contribute directly to the department's ability to assess BRAC costs. For example, DoD could extend its efforts to track the costs of BRAC rounds beyond the six-year implementation period in order to fully account for long-term caretaker and environmental costs.

Yet better recordkeeping, by itself, will not allow DoD to identify the extent of BRAC savings in a period when bases are undergoing large changes in budgets, forces, and workloads unrelated to BRAC. Instead, formal statistical models are needed to disentangle the effects of BRAC and non-BRAC factors on expenditures. In addition, DoD could improve the credibility of its savings estimates by better documenting the assumptions and methodologies used to generate them. The DoD Inspector General's audit of the savings from 1993 BRAC actions revealed that the services and defense agencies were often unable to explain how they derived the savings estimates submitted in their budget documents. The Congress might want to request that such documentation accompany all future BRAC budget exhibits. Such a requirement might encourage DoD to place greater emphasis on the quality and consistency of its estimating procedures.

In addition, DoD could provide better insight into capacity issues by developing a master plan for its base structure. Such a plan might be based on explicit estimates of requirements rather than presuming that the ratio of forces to base structure that existed in 1989 remains appropriate. For example, the plan could use standards reflecting the number of acres of land that combat units need for training or the number of square feet of office space an administrative worker requires. Standards could be developed that are appropriate to different types of forces and for forces stationed in the United States and overseas.

DoD's report would have been stronger had it provided well documented estimates of the savings from past BRAC rounds and estimates of excess capacity based on requirements. Yet despite those limitations, the report provides rough but credible estimates of the total recurring savings from past BRAC rounds, the aggregate level of excess capacity in the United States, and the potential savings from future BRAC rounds.

July 1, 1998

Honorable Thomas A. Daschle
Democratic Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

In your April 17 letter, you pose 10 questions about base realignment and closure (BRAC) actions. This letter responds to those questions. In addition, I have enclosed the Congressional Budget Office's (CBO's) review of *The Report of the Department of Defense on Base Realignment and Closure*, which elaborates on many of the issues you address in your letter.

Actual BRAC Savings. The Department is able to provide reasonable estimates of BRAC savings. Yet the firm measures of BRAC savings that were requested by the Congress do not—and indeed cannot—exist. BRAC savings are really avoided costs—costs that DoD would have incurred if BRAC actions had not taken place. Because those avoided costs are not actual expenditures, DoD cannot observe them and record them in its financial records. As a result, DoD can only estimate savings rather than actually measure them.

DoD Information Systems. It is not possible for DoD to establish an information system to track actual savings. The BRAC budget justification books track only estimated savings. DoD is more successful in tracking one-time implementation costs, which typically reflect actual expenditures made from BRAC accounts. Its information systems, however, cannot always categorize those expenditures in the most useful way. For example, in its report, DoD could not provide BRAC obligations by base type for the Navy and the defense agencies. To comply with the spirit of the request in section 2824(g), DoD might try to provide better documentation of how the budget estimates for savings are made and to maintain more accessible records of BRAC costs on an installation-by-installation basis.

Economic Effects of Future BRAC Rounds. DoD's report does not make detailed projections of the specific outcomes of future BRAC rounds. The economic impact of base closures on communities depends on many factors, including the size and strength

of the local economy and whether the community is urban or rural. An analysis of the likely impact of future base closures on local communities cannot be attempted until the specific communities are identified; even then, it would be very difficult to do.

Information Provided in DoD's Report. The DoD report provides most, but not all, of the information that the Congress requested. As noted above, it does not provide data that would require projecting the specific outcomes of future BRAC rounds. In addition, DoD was unable to locate some of the requested data, including the original cost and savings estimates that it gave to the BRAC commissions.

DoD's Analysis of Excess Capacity. DoD's report determines excess capacity based on the change in the ratio of forces to supporting bases since 1989. Although that approach is not unreasonable, the resulting estimates of excess capacity depend heavily on what specific indices are used for the size of the forces and of their supporting bases. In addition, that approach can understate or overstate the current level of excess capacity for particular types of bases depending on whether DoD had too many or too few bases of those types in 1989.

Overseas Base Capacity. DoD's capacity analysis does not address overseas forces or bases. The estimates of excess capacity presented in DoD's report refer to the percentages of excess capacity in the United States. The extent to which there may be a shortage or an excess of bases overseas relative to U.S. forces overseas does not affect the accuracy of those estimates or the need for base closures within the United States.

Savings from Past BRACs and Future Personnel Reductions. CBO found that the methodology used by DoD to show annual recurring savings of \$7 billion from the four prior BRAC rounds is relatively weak. Nonetheless, CBO believes that recurring savings from those BRAC rounds will be substantial—about \$5 billion annually, as is indicated by the services' BRAC budget documents.

DoD's current spending plan, which extends only to 2003, shows small reductions in the number of personnel in 2001 and beyond. Such reductions are not inconsistent with additional BRAC rounds in 2001 and 2005, because most of the savings and personnel reductions from those rounds would not be seen until after 2003. However, DoD will have to make significant reductions in personnel after 2001 to realize the level of BRAC savings that it projects from future rounds.

Future Savings Estimate. In its review of DoD's report, CBO concludes that the department's estimate of savings from future BRAC rounds is not unreasonable for planning. A more accurate estimate would require detailed projections about the outcomes of future BRAC rounds.

Costs Beyond the Implementation Period. DoD will incur environmental and caretaker costs for some bases after the six-year implementation period is over. In its review, CBO suggests that estimates of BRAC costs and savings would be more accurate if they included those costs.

Data Included in DoD's Report. Most of the data in the appendices to the DoD report are not new. Rather, they were compiled from several existing sources, including BRAC budget justification documents and other documents that DoD has submitted to the Congress. However, the report aggregates the data in new ways and presents them at levels of detail not previously available in a single document.

As your letter indicates, the issues surrounding military base closures are difficult ones. One problem is that if the BRAC process is going to work, the Congress must decide on the advisability of additional rounds without knowing in advance which bases would be affected and what the specific effects of those closures would be. Another difficulty is that the Congress must make those decisions even though the savings from previous rounds can only be estimated rather than tracked in DoD's financial records. The amount of savings from BRAC actions will always be impossible to estimate precisely. The reason is that the effects of BRAC actions are not easily disentangled from those of non-BRAC actions, such as mandated budget reductions or cuts in forces and workloads.

I hope that this response is helpful. Please contact me if you have any questions or if you would like to request additional work by CBO on BRAC issues. CBO's staff contact is Lauri Zeman.

Sincerely,

June E. O'Neill
Director

Enclosure

IDENTICAL LETTER SENT TO HONORABLE TRENT LOTT
AND HONORABLE RICHARD GEPHARDT