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STATEMENT

OF

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SUBCOMMITTEE ON READINESS
OF THE
HOUSE ARMED SERVICES COMMITTEE

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Chairman Ortiz, Mr. Forbes, and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you today to address the Department's implementation of the Base Realignment and Closure (BRAC) decisions.

Base Realignment and Closure 2005

The BRAC 2005 effort is the largest round undertaken by the Department. After an exhaustive examination of over 1,200 alternatives, the Secretary of Defense forwarded 222 recommendations to the BRAC Commission for its review. The Commission accepted about 65 percent without change and its resulting recommendations were approved by the President and forwarded to the Congress. The Congress expressed its support of these recommendations by not enacting a joint resolution of disapproval by November 9, 2005, therefore, the Department became legally obligated to close and realign all installations so recommended by the Commission in its report. These decisions affect over 800 locations across the Nation and include 24 major closures, 24 major realignments, and 765 lesser actions. The BRAC Act requires that the Department begin implementation of each recommendation within two years of the date the President transmitted the Commission's report to the Congress and complete implementation of all recommendations within six years of that date. The Department is now squarely within the statutory six-year implementation period which will end on September 15, 2011.

Beyond the comparative size of the 2005 round, it is important to note that this is the most complex round ever. The complexity of this round is not merely a function of its magnitude. The complexity is, to the largest extent, a function of the original goal established for this round: that BRAC 2005 would focus on the reconfiguration of operational capacity to maximize war fighting capability and efficiency. Focusing on operational capacity requires that

we increase the aperture of the lens we use to judge these actions so that we do not confine ourselves to a comparison of costs and savings. Instead, we must expand our view to appropriately assess the increased capabilities we are achieving through the implementation of these recommendations.

As the Department has testified on a number of occasions, DoD has begun the process of realigning or closing a number of large permanent bases overseas in favor of small and more scalable installations better suited for rapid deployments. The Global Defense Posture realignment effort identified an overall set of plans for returning overseas forces back to military installations in the U.S. These plans were integrated with the BRAC process regarding relocations from overseas to domestic bases during the prescribed BRAC time period. All Services factored requirements of returning forces into their domestic infrastructure requirements and this resulted in recommendations to accommodate forces at U.S. installations.

Results of Base Realignment and Closure 2005

BRAC 2005 was a capabilities-based rather than requirements-based analysis. That allowed the Department to review facilities within the context of the capabilities they offer instead of evaluating them against static requirements that limit the comparison to what we may know today. Because it was critically important for the Department to retain the infrastructure necessary to accommodate its ability to “surge,” the Department gauged its installations against the range of threats faced by our Nation so that it could differentiate among and capitalize on those that offer needed capabilities, and reconfigure, realign or close those that did not.

Assessing our infrastructure within a capabilities-based analysis required that we examine and implement opportunities for greater joint activity. Prior BRAC analyses considered all functions on a service-by-service basis and, therefore, did not result in the joint examination

of functions that cross services. While some unique functions will always exist, those functions that are common across the Services were analyzed jointly to maximize the access the entire Department will have to the assets provided by the supporting infrastructure.

Military Value

The base closure process was designed in law to be objective, open, and fair. Each recommendation, rooted in the Department's long-term force structure plan and installation inventory, was measured against eight criteria that were previously subjected to both congressional review and public comment. In developing the criteria, the Department, pursuant to statute, gave priority consideration to military value (criteria 1-4), then considered costs and savings (criterion 5), and finally assessed the economic impact on local communities, the community support infrastructure, and the environmental impact (criteria 6-8). Ultimately, these criteria were amended and codified in law. The Military Value criteria are provided here for reference:

(1) The current and future mission capabilities and the impact on operational readiness of the total force of the Department of Defense, including the impact on joint warfighting, training, and readiness.

(2) The availability and condition of land, facilities, and associated airspace (including training areas suitable for maneuver by ground, naval, or air forces throughout a diversity of climate and terrain areas and staging areas for the use of the Armed Forces in homeland defense missions) at both existing and potential receiving locations.

(3) The ability to accommodate contingency, mobilization, surge, and future total force requirements at both existing and potential receiving locations to support operations and training.

(4) The cost of operations and the manpower implications.

BRAC Estimates vs. BRAC Budgets:

While savings are certainly an important benefit of BRAC - the primary focus, as required by law, remains on maximizing military value. As was our policy in the previous rounds and as codified in the statute authorizing BRAC 2005, Military Value was the primary consideration in making closure and realignment recommendations. Maximizing Military Value does not always result in costs and savings.

The Department and Commission estimated the BRAC 2005 investment at \$22.3 billion. Making this investment was estimated to result in Annual Recurring Savings (ARS) after the implementation period in 2011 at \$4.4 billion. In arriving at its original estimates, the Department and Commission used the Cost of Base Realignment Actions (COBRA) model, which is a tool for comparative analyses of a variety of options using standard factors applicable during the timeframe within which the BRAC analysis was conducted. As such, COBRA was not designed to, nor does it produce, budget quality estimates. For instance, in arriving at comparative assessments that provided for an equitable treatment of all facilities, COBRA displays financial information in constant dollars in the initial year of implementation, which are unaffected by inflation. Revised cost and savings estimates, supported by the detailed planning and site surveys necessary to support budget submissions, could not be conducted during the COBRA analyses.

As I have previously testified, the Department's FY 2008 President's Budget request included a total BRAC 2005 investment of \$31.2 billion with an Annual Recurring Savings of approximately \$4 billion (\$30.8 billion in one-time costs in the BRAC Account plus \$400.6 million funded by the National Geospatial-Intelligence Agency from outside the BRAC Account). The \$8.9 billion increase over the COBRA estimate, which is fully funded in the

President's FY 2008 budget request, results primarily from inflation, changes in military construction, and Army-specific requirements. The savings decrease is primarily a result of revised personnel eliminations.

- Inflation: The \$22.3 billion cost estimate reflected the results of the Commission's actions on the Secretary of Defense's BRAC recommendations, stated in constant FY 2005 dollars. The \$31.2 billion cost figure reflects a stream of Then Year dollars spread over FY 2006-2011. Spreading the constant \$22.3 billion over the six-year implementation period and by applying Office of Management and Budget inflation factors, resulted in an increased funding requirement of approximately \$2 billion.
- Military Construction (MILCON): About 70 percent of the Department's BRAC 2005 investment supports MILCON requirements. This is a significant change from previous BRAC rounds in which MILCON represented only about one-third of the total investment. During the implementation planning process, besides dealing with fact of life dynamics like inflation factors exceeding previous planning factors and the effects of delayed implementation due to delays in receiving appropriations, the Department has made key decisions to:
 - In some cases, use new construction versus renovating space (existing space diverted to other needs)
 - Accommodate changes in unit/organization sizes, functions or responsibilities by increasing facilities or changing configurations, or building additional facilities
- Army-Specific Requirements: Relative to the other Services, the Army made the most use of BRAC as an instrument to facilitate total force transformation. As their transformation efforts developed and more detailed planning was completed, the Army

increased its BRAC requirement by \$4 billion to address training ranges, armed forces reserve centers, quality of life and medical construction projects, furnishings, environment remediation, program management and planning and design.

- Annual Recurring Savings: Decreases from \$4.4 billion to \$4 billion primarily resulted from revised personnel eliminations.

Tracking BRAC Savings

While the difficulty in quantifying the actual savings the Department will realize from BRAC has generated some debate, the fact that BRAC has generated substantial savings has not been credibly questioned. Changes in costs are easy to measure and their justifications can be closely scrutinized, but it is exceedingly difficult for any organization, public or private, to quantify exactly the costs that it has avoided. As the GAO acknowledged in its July 2001 report, “Military Base Closures, DOD’s Updated Net Savings Estimate Remains Substantial,” accounting systems are not oriented to identify and track savings. Therefore, increases or decreases in savings over time are more challenging to track.

As I have previously testified, the Department recognized this challenge for this BRAC round and responded by initiating a process to develop Business Plans that establish the requisite actions, timing of those actions, and the costs and savings associated with implementing each recommendation. The documentation of savings in Business Plans directly responds to the observations made by the GAO in previous BRAC reports.

Business Plans serve as the foundation for the complex program management necessary to ensure BRAC 2005 recommendations are implemented efficiently and effectively.

Responsibility for the development of each Business Plan was assigned, by recommendation, generally to the Military Department or Defense Agency with facility management authority at

the receiving site. Organizations significantly impacted by the recommendation were key players in the process and formally coordinated on the plans. For those recommendations that originated from the seven Joint Cross-Service Groups (JCSGs), the functional staff proponents review the implementation plan to ensure they achieve the goals envisioned in the recommendation. Additionally, the OSD Office of the General Counsel has been a key player in reviewing the Business Plans to ensure that they are legally sufficient and to verify that the Department is meeting its legal obligations.

BRAC As An Investment

It may be useful to compare the BRAC's rate of return to the real interest rate on Treasury notes and bonds used by the Office of Management and Budget (OMB) to evaluate the cost-effectiveness of government programs. Based on the costs and savings represented in the FY 2008 President's Budget, the inflation-adjusted Internal Rate of Return (IRR) for the BRAC account for the period 2006-2030 is 10.0 percent. Appendix C of OMB Circular A-94 estimates that the 20 year real interest rate on Treasury notes and bonds to be 3.0 percent. Therefore, the BRAC account's IRR is seven percentage points greater than the government's expected cost of borrowing. The BRAC account's 10.0 percent Internal Rate of Return is a significant benefit that the Department will realize from successful implementation of these recommendations.

Assisting Communities

The Department, through the Office of Economic Adjustment (OEA) and the Defense Economic Adjustment Program (DEAP), continues to work with states and more than 175 communities across the country as they respond to the effects of broad changes in Defense infrastructure, including efforts resulting from BRAC, Global Defense Posture Realignment, and

modularity. This same assistance will also be available to those areas that may be affected by “Grow the Force” decisions in the coming months.

In the context of BRAC, to date the Department has recognized Local Redevelopment Authorities for 126 locations to create a local redevelopment plan and direct implementation of that plan for more than 62,000 acres that are available for civilian redevelopment. The Department takes great care to ensure these Local Redevelopment Authorities have sufficient information on available property for the community’s consideration in their formulation of a redevelopment plan. The majority of these communities, with assistance from OEA, are nearing completion of their redevelopment plans to reflect the specific local market forces, public facility and service needs, and balance local homeless and community economic development interests. To date, 43 of these LRAs have completed their redevelopment plans and included them in their submission to the Department of Housing and Urban Development (HUD) for their review, of which 13 have been approved by HUD. HUD is tracking its review of submissions and is closely coordinating their actions with the Military Departments and communities to support DoD’s needs.

In disposing of surplus property, the Department is careful to not preclude any disposal method until a redevelopment plan is completed. Additionally, as part of the NEPA decision, the Military Departments give substantial deference to the Local Redevelopment Authority’s redevelopment plan and flexibly apply disposal methods from our “mixed tool kit,” ranging from fair market value, public benefit, and those that may be at no cost or discounted consideration. As these redevelopment plans are finalized, the Military Departments will link the Department’s environmental and property disposal efforts, including any necessary environmental remediation, with local civilian redevelopment actions.

Additionally, from the previous rounds of BRAC between 1988 and 1995 when 387 facilities were closed, including 97 major installations, the Department has disposed of approximately 460,000 acres, or 93 percent of the real property available for redevelopment. Local redevelopment efforts, in turn, have resulted in the creation of more than 137,451 jobs, more than offsetting the 129,649 civilian jobs that were lost as a result of these actions.

At the same time, OEA is working with those locations that are experiencing an influx of missions and personnel to assist them in understanding the scope of the anticipated actions and develop plans for community services and facilities to ease the absorption of the new military population. At each location, the local jurisdictions are partnering with their military installation to address a myriad of hard (roads, schools, houses, water and sewer) and soft (public services, health care, child care, spousal employment) issues that directly bear on the quality of life for our warfighters, their dependents, and the homeowners, businesses, and workers in the surrounding communities. OEA is hosting a Growth Summit this week in St. Louis, Missouri, for local, state, and military officials to share their best practices and consult with their OEA and other DoD/Federal partners to ensure we are capably helping them through this growth.

In furtherance of its efforts, the Department relies heavily on its sister Federal agencies to assist through the Economic Adjustment Committee (EAC), established pursuant to Executive Order 12788 (as amended). EAC is comprised of 22 Federal agencies. Among its responsibilities, the EAC coordinates interagency and intergovernmental adjustment assistance, and serves as a clearinghouse for the exchange of information between Federal Government, State and community officials involved in the resolution of economic adjustment concerns.

Activity under the EAC continues to assist BRAC and mission growth locations. The Department of Housing and Urban Development (HUD) is working closely with DoD in

monitoring the statutory timelines and consultations to support extensions for local redevelopment planning, in addition to reviewing local homeless submissions. The Department of Labor is actively working with Workforce Investment Boards at nearly every state and local level where BRAC and/or mission growth spousal employment demands are present. The Department of Education is working closely with DoD to be responsive to student growth at many of our mission growth areas, including site-specific visits to meet directly with Local Education Agency representatives and military spouses to understand on the ground education needs.

Conclusion

In closing, Mr. Chairman, I sincerely thank you for this opportunity to highlight the Department's Base Realignment and Closure efforts. I appreciate your continued support of the Department's plans to strengthen America's defense posture and the Department looks forward to working with the Subcommittee as plans continue to be put into action.