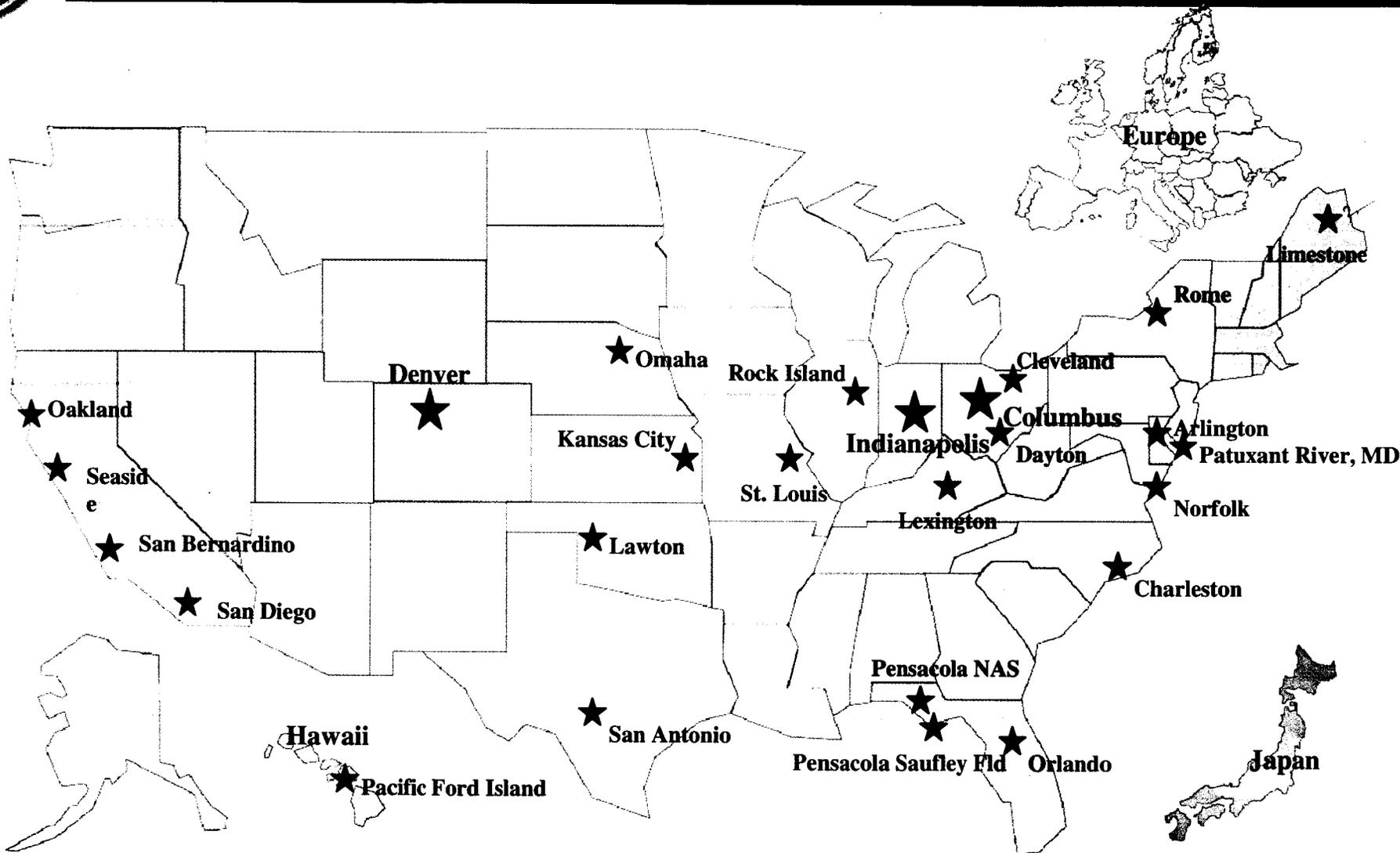




DFAS -- 26 Locations to 3 Locations



Green – Retained Sites
 Red – Closed Sites

DFAS Analysis of Options	DOD Rec – 3 sites Columbus, Indy, Denver Official COBRA	All 26 sites remain open	13 sites Lawton, Dayton, Charleston, Rome, Omaha, Limestone, Pensacola NAS, Pensacola Saufley Field, Norfolk, Columbus, Rock Island, Denver BRAC COBRA	5 sites Columbus, Indy, Cleveland, Denver, Kansas City BRAC COBRA	5 sites Columbus, Denver, Indy, Limestone, Rome BRAC COBRA	6 sites Columbus, Indy, Cleveland, Kansas City, Limestone, Charleston Official COBRA
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Cost (in millions)	\$282,851	\$1,651.0 FY 06 Budget	\$147,495	\$182,555	\$182,555	\$244,021
Recurring Savings (in millions)	\$120,122	No BRAC savings	\$92,407	\$110,662	\$110,662	\$96,113
Net Present Value (in millions)	\$1,306,990	0	\$1,079,617	\$1,293,566	\$1,293,566	\$1,000,832
Payback period	immediate	N/A	immediate	immediate	immediate	immediate
Geographic Diversity	No	Yes	Yes	Some	Some	Some
Rural Utilization	No	Yes	Yes	No	Some	Some
Economic Impact	Not considered	None	Yes	No	Considered	Considered
Service/Performance	Not considered	Not considered	Not considered	Not considered	Not considered	Not considered

Defense Finance and Accounting Service

The mission of the Defense Finance and Accounting Service or DFAS is to provide responsive, professional finance and accounting services to the Department of Defense and other federal agencies. DFAS is a working capital fund agency, which means that rather than receiving direct appropriations, DFAS earns operating revenue for products and services provided to its customers. Therefore, it is important that it does this at the lowest possible cost. The agency was created in 1991 to reduce the cost of Defense Department finance and accounting operations and to strengthen financial management through consolidation of finance and accounting activities. The agency consolidated over 300 installation service level finance and accounting offices to just 26. In 1991 DFAS had over 27,000 personnel. It is now down to about 14,000 and the agency has determined that it will be able to downsize their current workforce to about 10,000 by 2011 because of current and planned system improvements and business process reengineering savings.

OSD BRAC Recommendation

The OSD BRAC recommendation consolidates the agency's 26 sites (show map) into 3 major centers located at Denver (Buckley Annex), CO, Columbus, OH, and Indianapolis, IN. The commission added the three gaining locations in order to perform a comprehensive review of the recommendation.

Justification

This action accomplishes a major facilities reduction and business line mission realignment.

One-time cost	\$282.2 M.	
Annual recurring savings	\$120.1 M	Official COBRA
Immediate payback expected.		
Net Present Value	\$1,306.9 M.	

The current capacity of the three sites can accommodate the 10,000 personnel DFAS plans to have by FY 2011. It will require rehabilitation of buildings in Columbus at a COBRA estimated cost of \$3.8 M and annual recurring lease costs at Indianapolis of \$2.1 M. (Note: The COBRA does not include future costs that will be needed to force protect the Indianapolis site to DOD standards. An official costs was not able to be determined. (Note: I did send this question to the clearing house, but I have not yet received a response.))

	<u>Capacity in Seats</u>
Columbus	3700
Denver	2300
Indianapolis	<u>4300</u>
Total	<u>10,300</u>

Issues and Staff Analysis

- The communities raised a concern that sites with lower operating costs were not considered while DoD plans to spend funds to rehab buildings at Columbus at a cost of \$3.8 M and obtain additional lease space at Indianapolis at an annual recurring cost of \$2.1 M. DoD used an optimization model biased to sites with large capacity in order to get to the fewest number of sites without construction. It did not select sites with the lowest operating and personnel costs. (C4)
- Communities' concerned that closing so many sites will have a detrimental impact on customer service. Closing so many sites will pose a significant challenge to DFAS. The COBRA model estimates that 75% of the staff will transfer. However, DFAS' own estimate puts this number between 5% and 15%. Almost half of DFAS' employees are currently eligible for early or full retirement. If employees retire or leave early and DFAS is unable to hire and train a sufficient number of employees at the new sites within a reasonable time period, there could be a serious disruption in service and the necessary support to our military services could be at risk. (C1)
- The communities stated their military value score was inaccurate. While errors were identified in sites' military value score, it was not the driving factor in determining site selection. Because site capacity was a main issue, only the five large central sites would have been considered. (C2)
- The communities stated performance data should have been a selection criteria. Almost all DFAS sites perform at a satisfactory or above level. Because sites perform different functions meaningful differentiation between sites would have been difficult. (C1)
- Communities raised concerns that some of the sites were located on prior BRAC closure facilities to help mitigate economic impact of a previous round of closure. DoD's optimization model did not include economic impact. Economic impact should be considered. (C6)
- Community raised issue that realigning DFAS personnel away from Denver DFAS at Buckley Annex would allow for a full closure of the property if other BRAC action at location is approved. Agree that a full closure of property would produce savings. (C4)

Other Options

Maintain 26 Sites

Maintaining the 26 sites will produce no BRAC savings and DFAS will continue to maintain more infrastructure than what is even currently needed. The agency currently has overall excess capacity of 43% or 1,776,000 gross square feet which translates into over 8000 additional seats. Given the amount of excess capacity in DFAS' current system and their plan for further personnel reductions, excess capacity can only continue to grow. Thereby, many sites would be operating at less than efficient operations and DFAS' overall operating costs would be higher than necessary. These costs would be transferred to its customers who would have to pay higher rates for DFAS' services. Service to the customer, however, would not be disrupted.

Choose sites predominately based on cost of operations (operating costs per sq. ft.)

If sites are selected predominately on cost of operations, DFAS optimization model indicated the following 13 sites would be selected in order to meet DFAS' future capacity needs. A few of the very small sites, however, were not included in this list because they do not have room for sufficient growth. The model used the COBRA discount rate with a 20 year stream of lease costs.

Lawton (\$2.52)	400
Dayton (\$2.91)	600
Charleston (\$3.80)	600
Rome (\$4.26)	720
Omaha (\$4.45)	300
Limestone (\$4.98)	600
Pensacola NAS (\$5.75)	360
Orlando (\$7.38)	225
Pensacola Saufley Field (\$7.47)	320
Norfolk (\$7.72)	420
Columbus (\$8.27)	2900
Rock Island (\$9.03)	300
Denver (\$9.15)	<u>2300</u>
Total	<u>10045</u>

Note: If it is decided to close Buckley Annex (Denver), Indianapolis would be the next logical site to choose at \$14.96 sq. ft. and a capacity of 3700.

One-time cost	\$147,495 M.	
Annual recurring savings	\$ 92,407 M	BRAC COBRA
Immediate payback expected.		
Net Present Value	\$1,079,617 M	

Note: The Commission COBRA analysts did produce a number of runs to evaluate alternative DFAS scenarios. While these runs cannot be considered official COBRA runs due to the assumptions that were required, our analysts believe they are reasonable and illustrative of the potential savings that will be realized. The primary assumptions included the movement of an appropriate number of personnel within the entire scenario, that the gaining organizations had sufficient existing capacity to accept the realignments with the exception of the three largest sites (which incurred increased lease costs commensurate to those incurred in the original COBRA run), and that efficiencies would be scaled based on the number of consolidated DFAS sites (three sites had the greatest efficiencies, while 13 sites had the fewest).

While this option will mitigate any serious service disruption and economic impact, it does not allow DFAS to achieve its business line mission realignment and major facilities reduction.

(To consider not only today's concept-of-operations but also how finance and accounting operations will be performed once DFAS has complied with DOD's business process reengineering goals and directives. It appears that this is what DFAS is faced with today and what is driving their desire to go to three main operating sites.)

Choose the five main operating sites

Choosing the current five main central operating sites--Cleveland, Columbus, Denver, Indianapolis, Kansas City—would provide DFAS with all needed functional expertise and needed capacity— approximately 10,800 personnel. This option will mitigate any serious service disruption. It would also eliminate the need for renovating buildings and additional lease space. No field sites would be needed. It does not consider the economic impact on the most severely affected sites.

	<u>Capacity in Seats</u>
Cleveland	1500
Columbus	2900
Denver	2300
Indianapolis	3700
Kansas City	<u>900</u>
Total	<u>11,300</u>

One-time cost	\$182,555 M.	
Annual recurring savings	\$110,662 M	BRAC COBRA
Immediate payback expected.		
Net Present Value	\$1,293,566 M	

Maintain three DoD chosen sites and chose additional sites based on economic impact

Maintaining the three sites in the OSD BRAC recommendation while choosing other sites to minimize the economic impact on those sites most severely affected would still accomplish DFAS' desire to have major facilities reduction and business line mission realignment. It would eliminate the need for renovating buildings and additional lease space. The five sites would meet DFAS' future capacity needs. Limestone and Rome were selected as the two sites that will be most severely impacted by this recommendation because their economic areas have had economic difficulties which would be further impacted by this recommendation. Aroostook County (Maine), which houses Limestone DFAS, and Utica-Rome MSA (New York), which houses Rome DFAS, share the following economic problems:

- Relatively poor areas (their per capita incomes are at least 22% below the national average,
- Deteriorating job bases (total employment these two areas either declined or had no growth each year since 1989), and
- Out migration (severe population losses, particularly young age groups, since 1995).

Capacity in Seats

Columbus	2900
Denver	2300
Indianapolis	3700
Limestone	600
Rome	<u>600</u>
Total	<u>10,100</u>

In order to have sufficient numbers of personnel that will allow for an increased customer base, leveraging of knowledge, and more efficient business operations, I would recommend growing Limestone and Rome to at least 600 personnel each. While Limestone current capacity can only grow to 600, Rome has available space to grow to 1000.

One-time cost	\$182,555 M.	
Annual recurring savings	\$110,662 M	BRAC COBRA

Immediate payback expected.

Net Present Value \$1,293,566 M

Close Denver in order to allow for opportunity for full closure of Buckley Annex

The Commission has an opportunity to have full closure of Buckley Annex—an Air Force property. In order to have a full closure of Buckley Annex, an Air Force Property, it requires the Commission to support the realignment of the Air Force Personnel Center (ARPC). Buckley Annex comprises 38 acres. ARPC occupies 21% of the building and the DFAS 78%. Closing Buckley Annex would save an estimated \$6.4 M in base operating costs. A few other small tenants occupy the remaining 1% of the building.

If this option is chosen, other sites would need to be chosen. DFAS' optimization model indicates that in addition to Columbus and Indianapolis, Cleveland followed by Kansas City would be the sites selected. Selecting these sites would provide the functional expertise needed for each of the services in order to avoid a serious degradation of service.

However, under this option, I would recommend adding two field sites to provide for functional expertise for the loss of Air Force accounting and civilian pay. There are currently 5 field sites that do Air Force accounting—Dayton, OH, Limestone, ME, Omaha, NE, San Antonio, TX, and San Bernardino, CA. Two sites do civilian pay—Charleston, SC and Pensacola, FL. The out of service debt function, a function only performed at Denver, is a function that could easily be transferred during the transition as DFAS was planning to do with unique functions performed at sites that were proposed for closure under the DoD recommendation. In regards to Air Force accounting, while DFAS Dayton and DFAS Omaha have lower operating costs (\$2.91 sq. ft and \$4.45 sq. ft), DFAS Limestone also has one of the lower operating cost at \$4.98 sq. ft. and it is the site most economically impacted by the DoD recommendation.

To provide continuity of civilian pay operations, two sites can be chosen—Charleston or Pensacola NAS. While both have lower operating costs, Charleston's is slightly lower at \$3.80 sq. ft. versus \$5.70 at Pensacola. This option would negate the need for any rehabilitation costs at Columbus and additional lease costs in Indianapolis.

These sites would meet DFAS' future capacity needs.

Capacity in Seats

Cleveland	1500
Columbus	2900
Indianapolis	3700
Kansas City	900
Limestone	600

Charleston (Pensacola NAS) 600 (360)

Total 10,200/9960 ✓

In order to have sufficient numbers of personnel that will allow for an increased customer base, leveraging of knowledge, and more efficient business operations, I would recommend growing Limestone and Charleston and/or Pensacola to at least 600 personnel. While Limestone and Charleston’s current capacity can only grow to 600, the site at Pensacola Saufley Field or another site at the naval air station would be needed to accommodate the growth.

One-time cost	\$244,021 M.	
Annual recurring savings	\$ 96,113 M	Official COBRA
Immediate payback expected.		
Net Present Value	\$1,00,832 M	

Analyst note: Cleveland currently has a high costs per sq. ft. in the GSA building it currently occupies—approximately \$29.00 sq. ft. The Greater Cleveland Partnership in conjunction with the State and City has offered to construct a building that will lower the operating costs to \$14.00 sq.ft. and would meet all of DoD’s future force protection standards for leased space. This cost would be maintained for 20 years. (This is being offered because the city of Cleveland has been hit hard economically. It currently has a 7.1% unemployment rate. The area needs to keep these jobs in Cleveland for the future economic viability of the city.)

The Rural Development Act of 1972 requires agencies to locate facilities in rural areas. A July 2001 GAO report noted that certain functions have potential for rural area locations such as research and development, finance and accounting, law enforcement, and data processing. The report states that locating offices in a rural area depends primarily on the following factors: (1) whether the agency has flexibility in determining the location of a function (i.e., the function’s mission does not require close proximity to a specified population); (2) whether the function can be efficiently and effectively performed in a location remote from the agency’s main offices; and (3) whether the function can be performed without a large, technical workforce often associated with urban areas. The report notes, however, that the Act’s definition of rural was unclear and the GAO found application of it would be impractical. (See attached on the definition.) We would need to have our lawyers look at this to determine if any of the current DFAS sites meets the definition under the act.

In February 2003 memo to all of DoD (see attached memo), the Principal Assistant Deputy Under Secretary of Defense (Installations and Environment)—Philip W. Grone—

wanted to ensure that DoD Components were implementing the provisions of the Rural Development Act of 1972. The Department shall give priority consideration to rural areas for the location of new offices and other facilities.

<u>DFAS Analysis of Options</u>	DOD Rec – 3 sites Columbus, Indy, Denver	All 26 sites remain open	13 sites Lawton, Dayton, Charleston, Rome, Omaha, Limestone, Pensacola NAS, Pensacola Saufley Field, Norfolk, Columbus, Rock Island, Denver	5 sites Columbus, Indy, Cleveland, Denver, Kansas City	5 sites Columbus, Denver, Indy, Limestone, Rome	6 sites Columbus, Indy, Cleveland, Kansas City, Limestone, Charleston
	Official COBRA		BRAC COBRA	BRAC COBRA	BRAC COBRA	Official COBRA
	Option 1	Option 2	Option 6	Option 5	Option 3	Option 4
Cost (in millions)	\$282,851	\$1,651.0 FY 06	\$147,495	\$182,555	\$182,555	\$244,021
Savings (in millions)	\$120,122	No BRAC savings	\$92,407	\$110,662	\$110,662	\$ 96,113
Net Present Value (in millions)	\$1,306,990	0	\$1,079,617	\$1,293,566	\$1,293,566	\$1,000,832
Payback period	immediate	N/A	immediate	immediate	immediate	immediate
Geographic Diversity	No	Yes	Yes	Some	Some	Some
Rural Utilization	No	Yes	Yes	No	Some	Some
Economic Impact	Not considered	None	Yes	No	Considered	Considered
Service/Performance	Not considered	Not considered	Not considered	Not considered	Not considered	Not considered

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)

Closing 23 sites could have a detrimental impact on customer service.	DFAS acknowledged there will be challenges. Plans to apply lessons learned from initial consolidation to ease transition.	Closing so many sites will have a detrimental impact on customer service.	Most likely DFAS operations will be degraded during transition.
Performance criteria was not a selection criteria	Director acknowledged all sites perform at a satisfactory level and good people will be lost.	Performance of sites should have been a part of the selection process.	Sites perform different functions making meaningful differentiation between sites difficult.
Inaccurate military value scores	Military value criteria reflects needs of DFAS based on functional expertise.	Military value score weighted heavily on being on a DoD owned installation. Not accurately reflective of sites' condition, local population workforce, or hiring times.	Being on a DoD installation weighted too heavily. Military value criteria did not accurately reflect DFAS operations. Operation can be done anywhere.
Sites with lower operating and locality pay costs were not selected to remain open	An iterative process and optimization model used to develop a best value solution that maximized military value and minimize the number of locations.	Sites with lower operating and personnel costs could be selected that would meet DoD's mission. Closure of DFAS on Buckley annex could lead to a full closure.	Optimization model was biased to sites with large capacity (personnel). Operating & personnel costs were not driving factors in site selection. Closing Buckley Annex could produce annual BOS savings of \$6.4M.
Potential full installation closure			
Significant economic impact on some communities	Economic impact was not a part of optimization model.	Sites on prior BRACed sites to mitigate prior closures not fully recovered.	Economic impact was not a factor used to select sites. Economic impact should have been a factor in decision model.
<u>Adds Issue</u>			
Sites can handle additional workforce from closing sites.	Three sites all that is needed to accommodate DFAS' future needs in terms of both workforce and strategic redundancy.	Sites can handle additional workforce.	Agree three DoD gaining sites have the capacity to accommodate additional workforce.