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**GAO**

Report to the Chairman, Subcommittee  
on Military Readiness, Committee on  
Armed Services, House of  
Representatives

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December 1999

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# MILITARY BASE CLOSURES

Lack of Data Inhibits  
Cost-Effectiveness  
Analyses of  
Privatization-in-Place  
Initiatives



**G A O**

Accountability \* Integrity \* Reliability

DCN: 11846

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## Abbreviations

BRAC base realignment and closure  
DOD Department of Defense





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

National Security and  
International Affairs Division

B-283515

December 20, 1999

The Honorable Herbert H. Bateman  
Chairman, Subcommittee on Military Readiness  
Committee on Armed Services  
House of Representatives

Dear Mr. Chairman:

This report responds to your request concerning the privatization-in-place of select Department of Defense industrial facilities that were closed as a result of base realignment and closure decisions made in 1993 and 1995. Privatization-in-place is a concept in which a private sector entity takes over the operations of a facility that was once operated by the government. To date, privatization-in-place has been associated with the base closure process and used by the Department for transferring industrial work to the private sector. With legislative constraints affecting the Department's ability to close military facilities, privatization-in-place is not likely to be used outside the base realignment and closure process.<sup>1</sup>

The privatization of the former government-run operations at the Air Force Aerospace Guidance and Metrology Center in Newark, Ohio; the Naval Surface Warfare Center in Louisville, Kentucky; and the Naval Air Warfare Center in Indianapolis, Indiana, have been the only privatization-in-place actions resulting from the base closure process. These facilities primarily provide industrial support services for the Department. The Newark, Ohio, facility—operated by Boeing North American, Inc., and Wyle Laboratories, Inc.—performs maintenance on guidance systems for Air Force aircraft

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<sup>1</sup> Specifically, in 1977, Congress enacted legislation, reflected in 10 U.S.C. 2687, which essentially halted Department of Defense initiated base closures. Under section 2687, the closure of any military installation in the United States with at least 300 authorized civilian positions or the realignment of any installation involving a reduction of more than 1,000 civilian employees or more than 50 percent of the installation's authorized civilian workforce could not take place until the Secretary of Defense had evaluated the "fiscal, local economic, budgetary, environmental, strategic, and operational consequences of such closure or realignment." These requirements would make it difficult to close a large industrial facility such as a depot outside the base closure and realignment process. Subsequently, special legislative authorities were enacted in 1988 and 1990 to overcome impediments to base closure. These authorities provided the basis for four rounds of base realignments and closures between 1988 and 1995.

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and intercontinental ballistic missiles and provides metrology and calibration services. The Louisville facility—operated by Raytheon Systems Company and United Defense Limited Partnership—provides maintenance and other services for Navy shipboard air defense systems and guns. The Indianapolis facility—operated by Raytheon—designs and develops advanced electronics and other products for aviation, space, and other defense applications.<sup>2</sup> Appendix I provides additional background information on these privatization-in-place initiatives.

Our overall focus was to assess the status, cost, and effectiveness of the Department's three privatization-in-place actions. Specifically, our objectives were to (1) determine how contractors are responding to decreasing workloads at these privatized facilities, (2) compare the cost-effectiveness of the privatization-in-place operations to the former government-run operations, and (3) identify the impact of privatization on excess capacity in the Department's industrial infrastructure.

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## Results in Brief

In general, the contractors at the privatization sites are facing decreasing defense workloads and have either initiated or planned efforts, such as bringing in new work and reengineering business processes, to reduce operating costs and improve efficiencies. Contractors at these facilities have experienced difficulties in attracting new customers and are uncertain about future workload levels. Contractors at the Navy privatization sites in Kentucky and Indiana are optimistic about efforts under way to increase workloads.

Due primarily to data limitations, we were able to compare the cost-effectiveness of privatization-in-place with the former government-run operation for only one of the three facilities in question. Our analysis of a recent Air Force cost comparison study indicates that costs to the government for fiscal year 1997 for work performed at the privatized facility in Newark, Ohio, were about 16 percent higher than the estimated cost had the Air Force continued to operate the facility. Similar cost comparison studies of the Navy privatizations have not been done and were not possible to construct due to (1) the absence of sufficient, detailed

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<sup>2</sup> At both Louisville and Indianapolis, Navy contracts were initially awarded to subsidiaries of Hughes Aircraft Company. Subsequently, Raytheon Company merged with Hughes Aircraft in December 1997 and took over Hughes' s operations at Louisville and Indianapolis.

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historical baseline cost data for the closed Navy facilities and (2) changes to workload volume and mix. However, contractors at each of the privatized sites have initiated business improvements that appear to be increasing operating efficiencies and reducing costs to the government. The military customers were generally pleased with the timeliness and quality of the products produced by the privatized facilities.

As a general rule, privatization-in-place has not optimized reductions in excess capacity and operating costs in the infrastructure owned and operated by the Department of Defense—a major base realignment and closure objective. Rather than closing facilities and transferring defense work to other underutilized defense facilities in the public or private sector to reduce excess capacity, privatization-in-place allows work to remain at the original sites to be performed by the private sector. While the Department no longer owns the infrastructure, it continues to support it through payments for contract work performed at these facilities. Indirectly, the Department continues to pay for excess capacity, and as a result, the goal of eliminating excess capacity may be realized more in form than in substance. Consequently, the cost reductions anticipated under the base closure process may not be fully realized. At the same time, privatization-in-place actions can produce some reduction in excess capacity and operating costs, where privatized facilities are also used to consolidate defense related work from other contractor facilities, such as at the former Naval Surface Warfare Center in Louisville. In such instances, contractors' efforts to improve business practices and reduce their own defense business infrastructure may create efficiencies in overall public-private defense infrastructure.

Should the Department of Defense consider privatization-in-place in the future, we are recommending that the Secretary of Defense require the services to (1) consider the overall cost-effectiveness of this approach in reducing operating costs and excess capacity in the combined public and private sectors supported by the defense budget; (2) retain an adequate baseline of historical government costs, preferably on a per-unit basis, to assess the cost-effectiveness of privatization-in-place; and (3) periodically reassess the cost-effectiveness of prior privatization-in-place initiatives, in light of excess capacity in other private sector and DOD facilities and continuing declines in military workloads.

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## Background

Three facilities have been privatized-in-place as a result of the 1993 and 1995 base realignment and closure (BRAC) processes—an Air Force

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facility in Newark, Ohio, and Navy facilities in Louisville, Kentucky, and Indianapolis, Indiana. The facility at Newark is owned by an Ohio-chartered local redevelopment authority, which was formed to accept the transfer of the property from the Air Force.<sup>3</sup> The Louisville and Indianapolis facilities are still owned by the government, which established leases between the Navy and selected local redevelopment authorities for facility use. At both privatization sites, the Navy plans to eventually transfer the property to the local redevelopment authorities.

Recommending closure of the military facilities, the BRAC commissions provided the Department of Defense (DOD) with the flexibility to move work to other DOD facilities or to the private sector.<sup>4</sup> Closure actions at two Air Force facilities as a result of the 1995 BRAC process (the Air Logistics Centers at Kelly Air Force Base, San Antonio, Texas, and McClellan Air Force Base, Sacramento, California) at one point focused on privatizing work in place. However, the Air Force subsequently shifted to an emphasis on public-private competition to determine where the work would best be done.<sup>5</sup> Nevertheless, efforts to privatize-in-place the work at these latter facilities have stimulated significant debate over the benefits of such privatization initiatives and have figured prominently in subsequent congressional debates over whether to authorize additional BRAC rounds. Consequently, the three privatization-in-place initiatives have created much interest in the costs and benefits of these privatized operations compared with prior government operations.

Prior studies have questioned the privatization-in-place concept. An August 1996 Defense Science Board study team concluded that privatization-in-place should be avoided, since it tends to preserve excess capacity. In 1996, a privatization task force comprised of executives from

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<sup>3</sup> A local redevelopment authority is a community organization officially recognized by DOD as having sole responsibility for planning reuse of the property and serving as the community's point of contact for all matters relating to the closure.

<sup>4</sup> The 1993 BRAC Commission recommended closure of the Air Force facility as a DOD operation, while the 1995 BRAC Commission recommended closure of the Navy facilities.

<sup>5</sup> To the extent privatization-in-place involves a potential transfer of DOD in-house depot maintenance and repair work valued at \$3 million or more to a contractor, 10 U.S.C. 2469 requires that a competition among public and private sector entities be held for the work. In addition, the San Antonio and Sacramento workloads were the subject of special restrictions contained in 10 U.S.C. 2469a.

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the aerospace industry that was formed by the governor of California concluded that privatization-in-place

“inhibits the realization of cost savings intended from base closures and the performance goal improvements that privatization is intended to achieve. Privatization-In-Place, therefore, does nothing to solve the excess capacity problem within either the public or private sector of the industrial base.”<sup>6</sup>

Our prior report on the Air Force privatization of the Newark aerospace facility showed that as of July 1997, and based on several months of contractor operations, the Air Force estimated that contractor costs were about 17 percent higher than historical costs for similar work at the former government facility.<sup>7</sup> The Air Force attributed this increase primarily to increased material costs, contract oversight and administration costs, and estimated contractor award fees. Neither DOD nor we have previously performed similar cost comparisons for the Navy privatizations. However, our July 1997 report on the Louisville privatization questioned the Navy’s workload relocation analysis and concluded that privatization-in-place was not likely to be as cost-effective as relocating the work to other DOD facilities.<sup>8</sup>

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## Privatization Contractors’ Efforts to Combat Decreasing Workloads

Defense workloads at the privatized facilities are less than those before privatization. However, workloads at the former Air Force facility in Newark, Ohio, have remained relatively stable during the 3 years of privatized operations. Even so, in the near future, the aircraft and missile repair contractor is expecting workload decreases as military system requirements decline. Workloads at the former Navy facilities in Louisville, Kentucky, and Indianapolis, Indiana, have decreased more significantly. As a result, the contractors at these locations are reducing their infrastructure and reengineering business processes to contain costs. Moreover, the Navy contractors have moved other defense work into the privatized facilities to supplement the existing workload and consolidate certain operations.

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<sup>6</sup> *Report of the California Chief Executive Officers’ Defense Privatization Task Force to Governor Pete Wilson: Pathway to Privatization—An Industry Perspective*, California Trade and Commerce Agency (Sacramento, Cal.: Mar. 1996), p. xix.

<sup>7</sup> *Air Force Privatization-in-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs* (GAO/NSIAD-98-35, Dec. 22, 1997).

<sup>8</sup> *Navy Depot Maintenance: Privatizing Louisville Operations in Place Is Not Cost-Effective* (GAO/NSIAD-97-52, July 31, 1997).

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**Workload at Air Force  
Privatization-in-Place Site**

Less maintenance work is performed at the privatized facility at Newark than had been performed under the Air Force's operation. However, during the years of privatized operations the overall workload has remained relatively stable. Aircraft repairs performed by the primary contractor, Boeing North American, Inc., have decreased somewhat, while missile repairs have stayed about the same. The facility's other contractor, Wyle Laboratories, has experienced a small workload increase. However, both contractors expressed uncertainty about their future workload projections, with Boeing officials expecting sizable workload decreases. For example, aircraft repair requirements are expected to decrease by about 6 percent in 2000, with further decreases expected through year 2014. Boeing officials attribute these expected decreases to normal system retirements and attrition, increasing reliability of newer and future weapon systems, and greater reliance on the original equipment manufacturers for logistics support.

The outlook for combating these anticipated workload reductions is not very optimistic because of difficulties in attracting new work. Although Boeing has been actively pursuing the acquisition of work from other in-house operations, manufacturing partners, other DOD programs, and commercial sources to offset its declining Air Force workload, its efforts have been largely unsuccessful to date. Wyle Laboratories has been encountering similar problems in acquiring additional work. It now performs very little commercial work and has few prospects for any major new business.

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**Workload at Navy  
Privatization-in-Place Sites**

Since privatization-in-place was implemented at the Navy facilities in Louisville and Indianapolis, the defense workload has declined, primarily due to reduced Navy operational requirements and lower weapon systems maintenance budgets. In some cases, the workload reduction has been significant. According to contractor officials, work now performed by United Defense Limited Partnership in Louisville has declined almost 80 percent, from 1.3 million direct labor hours in 1994 to about 277,000 hours in 1998. Moreover, Raytheon's maintenance workload in Louisville has declined about 50 percent, and its workload in Indianapolis has decreased about 30 percent since privatization.

In response to declining workloads, the Navy's privatization contractors have instituted several business improvements to contain costs. In Louisville, for example, United Defense reduced the former Navy workforce by over two-thirds and its facility infrastructure by about

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40 percent. This was accomplished primarily through organizational restructuring initiatives and work process efficiencies. Raytheon in Indianapolis has similarly reduced its workforce by 330 employees, or 17 percent, mostly in response to declining workloads. By reengineering its workstations and improving inventory storage, Raytheon has also modernized its facility in Louisville to provide for a more cost-effective maintenance work flow and to accommodate new production work.

In addition to infrastructure reductions and improved business practices, the contractors at the former Navy facilities have brought in additional defense business work from their other facilities to supplement the declining workload. For example, Raytheon in Louisville has transferred its Phalanx and Rolling Airframe Missile launcher production work from its Tucson, Arizona, facility. Moreover, United Defense is moving some naval gun production work from a Navy-owned plant in Fridley, Minnesota, to Louisville. As a result, Navy and United Defense officials believe that the workload will stabilize at its current level over the next 2 years, if the Congress provides additional funds for gun repair work at Louisville beyond DOD's budget requests as it has for the last 2 years. While United Defense continues to use the Fridley facility, officials told us they plan to downsize it further. They said that by the end of the year 2000 the Fridley workforce will be reduced by 285 employees, or 17 percent, and its facility infrastructure by about 1 million square feet, or 50 percent.

Raytheon has also been able to consolidate work from its plant in Long Beach, California, with that in Indianapolis, thereby reducing the company's internal infrastructure. Raytheon officials told us that it had transferred its entire Long Beach facility depot-level repairs and spares manufacturing to Indianapolis. This restructuring initiative equated to consolidating about 120,000 square feet from its Long Beach facility to Indianapolis. Raytheon has also brought additional work to Indianapolis from foreign government sales.

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### Cost-Effectiveness of Privatization-in-Place Is Difficult to Determine

Although military customers were generally pleased with the quality and timeliness of products produced by the privatized activities, data limitations precluded us from determining for two of the facilities in question whether privatization-in-place offers a more cost-effective approach for DOD to accomplish its workloads than the former

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government-run operations.<sup>9</sup> A recent Air Force study on the Newark, Ohio, facility indicated that privatized operations were costing more than former Air Force operations, but no similar cost studies have been performed for the Navy privatizations at Louisville and Indianapolis. Moreover, we were unable to independently conduct such cost comparisons primarily because of (1) the absence of sufficient historical baseline data for operations at the former government-run facilities and (2) Navy-directed revisions in maintenance practices for certain key weapon systems and changes in workload mix. While the two Navy privatization contractors have initiated business improvements that appear to be improving operating efficiencies and reducing costs, the cost-effectiveness relative to the former government operations is unknown.

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### Air Force Studies Show Privatization Costs at Newark Exceed Costs of Former Government Operations

In our prior work in January 1997, we asked the Air Force to compare the costs of missile repair at Newark, Ohio, under privatization to the facility's costs to perform this same work under government control, based on about 3 months of contractor data. The Air Force also initiated similar cost analyses of its two other workload components—aircraft repair and metrology operations. Estimated privatization-in-place costs for fiscal year 1997 (the first full year of privatization) were projected based on limited actual work data for the contractors' operations and included some other privatization costs attributable to the government (e.g., costs for contract administration and oversight). Estimated government costs were based on actual production data from fiscal year 1995, escalated for inflation and adjusted for fiscal year 1997 requirements. These costs also included comparability adjustments for such items as estimated base operating support costs (cost comparability adjustments represent factors that need to be added to the government's actual production costs in order to obtain a total government cost for the operation). The Air Force study, released in July 1997, estimated that the fiscal year 1997 work performed at the privatized facility would likely cost the government about \$14.1 million, or about 17 percent more than if the facility had continued to operate as a government activity. Contract award fees, government costs for contract administration and oversight, and higher material costs were the primary causes for the cost differential. Table 1 shows the results of this study.

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<sup>9</sup> An alternative to privatization-in-place was closure of the facilities, with transfers of the workloads to other DOD facilities. According to BRAC commissions, the closure option was estimated to provide annual savings to DOD of \$3.8 million, \$28.6 million, and \$39.2 million for Newark, Louisville, and Indianapolis, respectively, after one-time closure costs have been recouped.

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**Table 1: Initial Cost Comparison Between Projected Government and Actual Privatization Operations at Newark, Ohio (July 1997)**

Dollars in millions

Work category	Government	Privatization	Difference	Percentage change
Aircraft	\$34.4	\$42.4	\$8.0	+23
Missile	41.2	45.5	4.3	+11
Metrology	8.7	10.5	1.8	+21
<b>Total</b>	<b>\$84.2</b>	<b>\$98.3</b>	<b>\$14.1</b>	<b>+17</b>

Note: Numbers may not add due to rounding.

Source: Air Force cost comparison study dated July 1997.

In our December 1997 report,<sup>10</sup> we concluded that the Air Force's cost study methodology was analytically sound, appeared reasonable, used the best available data, and was consistent with DOD guidance on public-private depot competitions.<sup>11</sup> While we reported that the study provided a reasonable interim cost estimate at that time, we also reported that it was premature to reach a final conclusion on costs until a full year of actual data was available.

Subsequently, the Air Force conducted follow-on workload cost analyses based on reported fiscal year 1997 costs and production results. In its November 1998 study, the Air Force concluded that the privatization costs were again greater than the projected government costs to perform the same work. Privatized costs were \$16.8 million, or about 21 percent higher than historical Air Force costs. Table 2 shows the results of this updated

<sup>10</sup> *Air Force Privatization-in-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs* (GAO/NSIAD-98-35, Dec. 22, 1997).

<sup>11</sup> We did not verify the accuracy of the Air Force historical cost data used for the study. Our prior work has identified unreliable cost data as one of several key weaknesses in DOD's financial management systems. These long-standing weaknesses led us to designate DOD financial management as a high-risk area vulnerable to waste, fraud, abuse, and mismanagement. DOD has started to devote additional resources to correct these problems. Our recent work includes *Department of Defense: Status of Financial Management Weaknesses and Actions Needed to Correct Continuing Challenges* (GAO/T-AIMD/NSIAD-99-171, May 4, 1999), *High-Risk Series: An Update* (GAO/HR-99-1, Jan. 1999), *Major Management Challenges and Program Risks: Department of Defense* (GAO/OCG-99-4, Jan. 1999), and *Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies* (GAO/NSIAD-98-62, Feb. 1998).

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study. Our review of this cost analysis identified some overstated contract costs for leasing and capital improvement projects and the omission of estimated government revenue received from corporate federal income tax payments. We subsequently made adjustments to the analysis that resulted in decreasing the cost differential to about 16 percent in favor of the former government operation.

**Table 2: Updated Cost Comparison Between Projected Government and Actual Privatization Operations at Newark, Ohio (November 1998)**

Dollars in millions

Work category	Government	Privatization	Difference	Percentage change
Aircraft	\$37.5	\$45.2	\$7.7	+21
Missile	33.9	41.0	7.2	+21
Metrology	8.8	10.7	1.9	+21
<b>Total</b>	<b>\$80.2</b>	<b>\$97.0</b>	<b>\$16.8</b>	<b>+21</b>

Note: Numbers may not add due to rounding.

Source: Air Force cost comparison study dated November 1998.

The updated study followed the same general approach and methodology used in the interim study. Contractor costs represented a full year of privatization operations and, as previously described, included other associated privatization costs. The government cost estimates were largely based on fiscal year 1995 data that were adjusted for inflation and applied to actual repair quantities accomplished by the contractors during fiscal year 1997. After resolving some concerns raised by Boeing, the Air Force added some additional cost to the government estimate for comparability reporting purposes. This had the effect of reducing the cost differential from about 24 percent to 21 percent. These additional costs were attributable to detailing each workload's allocated share of accounting, information services, and dispensary costs. We agree with these comparability adjustments.

As noted previously, the Air Force's interim study initially identified three factors contributing to the increased costs of privatization at Newark, namely (1) contract award fees, (2) government costs for contract administration and oversight, and (3) material costs. Although the first two causes—award fees and contract monitoring—are continuing contributors

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to increased privatization costs at Newark, the material cost issue has since been resolved. As a result of a 1998 Air Force Audit Agency study recommendation to improve visibility over materials and to control contractor access to material in the DOD supply system at Newark, the contractors and DOD have performed a detailed inventory of material on-hand and instituted new record keeping procedures and controls. As a result, neither the Air Force nor the Defense Contract Management Command view the material cost issue as an ongoing factor in terms of increased privatization costs. The November 1998 updated cost study assumed that material costs were the same for both the contractor and the government.

While the Air Force cost studies indicate operations are more costly at the privatized facility, the contractors have been incorporating business improvements to obtain cost efficiencies in order to reduce their operating costs. For example, in October 1997—after the data had been collected for the updated Air Force study—Boeing reduced its staffing by 77 to better size the workforce for the workload, thereby reducing costs. Moreover, Boeing has introduced new work flow and work processes intended to reduce turnaround times and costs for some work. A Wyle official cited reduced turnaround times for repairs and the elimination of repair backlogs. The Air Force, however, does not plan to revise its cost comparison for future years beyond fiscal year 1997 because of concerns about the usefulness of the historical baseline costs as the data get older.

Air Force customers and Defense Contract Management Command officials were satisfied with the timeliness and quality of the work performed by both Boeing and Wyle to date. Although citing some initial start-up problems experienced with Wyle Laboratories, they said that both contractors now exhibit positive performance measurements in such areas as scheduling, repair process improvements, and quality assurance. For example, ongoing Boeing program management reviews report missile and aircraft repairs meeting or falling below target pricing expectations, with related repair performance results meeting or exceeding most workload goals. According to Air Force managers, they would prefer not to relocate the current workload to any other facility, government or private sector, given the present quality of work and the expertise developed over the years in Newark.

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### Similar Comparative Cost Analyses of Navy's Privatizations at Louisville and Indianapolis Cannot Be Made

The Navy has not performed any similar cost analyses on the privatization-in-place sites at Louisville and Indianapolis. Moreover, the absence of sufficient historical data for former Navy operations at these sites precluded us from performing cost comparisons similar to that of the Air Force's study at Newark. Thus, the cost-effectiveness of these particular initiatives, in relation to former government operations, is unknown. However, contractors at these privatization facilities have taken steps to improve cost efficiency and program results. While the Navy has not performed cost analyses similar to the Air Force study of Newark, it continuously monitors the costs for work performed at Louisville and Indianapolis as part of its ongoing contract oversight and administration.

Our discussions with Navy officials showed that detailed operational and financial data, such as per unit costs, needed for an equitable cost comparison were not available. Some macro-level data, including total work years expended and reported overall costs, were available at higher-level headquarters units (such as the Naval Air Systems Command at Patuxent River, Maryland, for the Indianapolis site), but were not useful for the overall purpose of comparing costs. Moreover, Navy-directed revisions to maintenance practices on select weapon systems and changes to product mix occurred after the privatizations were under way, thereby precluding equitable cost comparisons even if detailed historical data were available. For example, Raytheon has modified its maintenance practices for overhauling Phalanx systems at Louisville by making only necessary repairs, referred to as condition-based maintenance, rather than performing complete overhauls. This change in practice has reportedly resulted in fewer component replacements, reduced labor hours, and reduced costs for each unit overhauled. United Defense in Louisville has made similar changes to its overhaul process for the Navy's 5-inch MK-45 gun.

Although the overall cost-effectiveness of the Navy privatizations could not be determined, there are indications of at least potential short-term cost savings to the government resulting from contract provisions restricting labor rate charges and the contractors' efforts to improve business practices. In Indianapolis, for example, a city-imposed covenant placed on Raytheon at the time of contract negotiations requires it to offer labor rates for most Navy work that are 15 percent lower than Navy-operated facility rates over the 5-year contract period. However, after that time, the rates will not be restricted and will be renegotiated, thus raising uncertainty about future rates. A Defense Contract Management Command analysis confirmed that Raytheon was performing work under the primary Navy

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contract in 1997 at labor hour rates that were, on the average, 15 percent less than the prevailing Navy rates at the time.

Facing decreasing workloads and increased costs, United Defense in Louisville reduced its workforce and facility space by returning unneeded buildings to the local base redevelopment authority and reengineering maintenance processes. United Defense officials now believe their labor hour rates are comparable to rates used by the Navy when it operated the facility; however, without a baseline of historical government costs, we could not independently validate this assertion. Raytheon in Louisville has reengineered its facility layout and manufacturing and maintenance practices to improve cost efficiencies, and Navy contractors at Louisville and Indianapolis have consolidated some workload operations at the privatized facilities by bringing in work from their other facilities to reduce overall contractor infrastructure and costs. For example, United Defense has relocated assembly work from its Fridley, Minnesota, site to Louisville, thereby reducing space requirements at Fridley by over 50 percent and reducing hourly labor rates by as much as \$14. However, we did not assess the impact of the transfers on the cost of the work remaining at Fridley. Raytheon in Louisville has brought in production work for the Phalanx and Rolling Airframe Missile launcher from its plant in Tucson, Arizona, thereby allowing it to close its Lewisville, Texas, facility. Raytheon has also transferred its Long Beach facility depot-level repairs and spares manufacturing to Indianapolis. This restructuring contributed, along with other transfers, to closing Raytheon's Long Beach facility.

Navy customers of the Louisville and Indianapolis privatizations-in-place told us they were satisfied with the timeliness, quality, and cost of the work performed to date. Customers said, for example, that United Defense and Raytheon in Louisville have either maintained or improved quality and timeliness since privatization through changes made to the older Navy work processes and better customer service. They also said that work performed by Raytheon at Indianapolis was as good as that provided by the Navy before privatization. None of the customers we spoke with planned to transfer work to other locations. In Louisville, for example, Navy officials told us they would prefer not to relocate the current workload to any other facility, government or private sector, given the quality of work and the expertise developed over the years. In fact, the Navy gun work customers of United Defense see no reasonable alternative for overhauling their naval guns outside the Louisville facility. As such, they plan to continue sending work to Louisville in the future, as do the Raytheon customers.

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## Privatization-in-Place Does Not Optimize Excess Capacity Reductions in DOD's Own Infrastructure

Privatization-in-place has not optimized reductions in excess capacity in DOD's own infrastructure, but it can allow for some cost savings in the overall public-private defense infrastructure supported by the defense budget. Reducing DOD's infrastructure was a major BRAC objective, but information provided by DOD, as well as our prior reports, shows that excess capacity still exists in the industrial infrastructure, despite four rounds of BRAC. Rather than closing facilities and transferring defense work to other underutilized DOD facilities to reduce excess capacity, privatization-in-place causes workload to remain at those sites. As a result, DOD continues to support the costs associated with maintaining that facility infrastructure through the rates charged by the contractors for the workload performed. If, instead of privatization, these facility workloads had been relocated to other underutilized DOD facilities, DOD's excess capacity and infrastructure costs would have been more optimally reduced. In effect, by increasing the workload and utilizing capacity at underutilized government facilities, facility overhead costs can be spread over a larger workload base and, as a result, overall costs for repairs on specific units could be reduced and customer prices lowered.

Although privatization-in-place has not addressed DOD's excess capacity problem, contractors at the privatized facilities we visited told us they have either reduced or are trying to reduce their costs, as noted previously, through improved operating efficiencies and reductions in their corporate infrastructure. However, to the extent that DOD maintains underutilized facilities in its industrial infrastructure, it is difficult to assess whether privatization-in-place offers a cost-effective alternative to relocating workload to other underutilized DOD locations. Privatization-in-place would only be a more cost-effective alternative if the contractors can achieve savings that are significant enough to offset the savings lost by not relocating workloads to DOD's underutilized facilities.

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## Conclusions

Latest estimates of costs at one privatized facility were about 16 percent higher than costs of the same activities when operated as an Air Force facility. However, without an adequate historical baseline and accounting of government operating costs, the Department of Defense lacks the means to compare current costs of operations with the former government-run operations. Faced with decreasing workloads, it will be increasingly difficult to hold down costs of workloads performed at the Department's three privatized facilities. Contractors performing work at these facilities are taking steps to reduce costs and improve efficiencies. The Department

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needs to examine these initiatives in the context of the entire defense industrial infrastructure rather than in isolation as individualized operations. As a general rule, privatization-in-place does not optimize reductions in excess capacity in government-owned facilities, and it reduces the potential to achieve greater economies in overhead costs. The Department's efforts to eliminate facilities it owns by transferring them to the private sector does not appear to be cost-effective at one facility, but insufficient data were available to fully assess the cost-effectiveness of the other two locations relative to former government operations. Moreover, since the Department is continuing to pay for the use of these facilities through contractual arrangements, they have not optimized reductions in excess capacity but rather have shifted it to the private sector. Thus, through privatization-in-place actions, the goal of eliminating excess capacity may be realized more in form than in substance.

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## Recommendations

Should DOD consider privatization-in-place in the future, we recommend that the Secretary of Defense require the services to (1) consider the overall cost-effectiveness of this approach in reducing operating costs and excess capacity in the combined public and private sectors supported by the defense budget; (2) retain an adequate baseline of historical government costs, preferably on a per-unit basis, to assess the cost-effectiveness of privatization-in-place; and (3) periodically reassess the cost-effectiveness of prior privatization-in-place initiatives, in light of excess capacity in other private sector and DOD facilities and continuing declines in military workloads.

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## Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report. These comments are included in their entirety in appendix II. DOD disagreed with our recommendations, stating that they were unreasonable to implement. In light of DOD's comments, we made changes to the report to clarify our position and have revised our recommendations to reflect these changes. We continue to believe that our recommended actions can be accomplished and that they are essential to assessing the cost-effectiveness of privatization-in-place.

DOD disagreed with our recommendation regarding the assessment of the cost impact of future privatization-in-place actions on DOD and private-sector defense-supported infrastructure, stating that it would be unreasonable to estimate operating cost reductions for both the public and

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private sectors. DOD also stated that such an assessment would be sensitive to many factors outside the control of DOD. While we agree that such an assessment would be difficult to complete, especially for the private sector portion, some assessment needs to be made, even if it includes rough order of magnitude estimates, for DOD to be in a position to assess the cost-effectiveness of any such proposal. Such an assessment should, for example, consider the effects of consolidating complimentary workloads at potential privatized locations from other facilities (and thereby reducing or eliminating infrastructure associated with those facilities), either in DOD or in the private sector, to achieve the best possible efficiencies. We continue to believe that such an assessment, completed prior to implementing privatization-in-place, is essential if DOD is to assure itself that privatization-in-place is a cost-effective option to take to reduce DOD infrastructure and costs.

DOD also disagreed with our recommendation regarding the retention of historical baseline government cost data for subsequent use in analyzing the cost-effectiveness of privatization-in-place actions. In disagreeing, DOD stated that it was unreasonable to retain such historical cost data because it would necessitate a change in accounting procedures at most DOD activities and place an unnecessary burden on these activities. While we agree that some financial reporting changes may be necessary and additional record keeping may be required, we do not believe implementation of this recommendation need be unnecessarily burdensome or unreasonable given the Air Force's ability to collect such cost data for its cost analyses of the Newark facility.

We further believe it is important to develop and retain such a performance baseline of costs, to the extent practical, to be able to conduct future cost comparison analyses, as well as effectively manage costs of current operations. In fact, such accumulation of historical cost information is already required by financial accounting standards. Specifically, Statement of Federal Financial Accounting Standards No. 4 requires agencies to accumulate and report the costs of its activities on a regular basis for management information purposes. The standard also states that measuring cost is an integral part of measuring performance in terms of improving efficiency and cost-effectiveness. Without an adequate baseline of historical operating costs, DOD is not in a position to judge the cost-effectiveness of any potential privatization-in-place actions, including anticipated infrastructure efficiencies achieved by these actions. Therefore, any changes in accounting procedures necessary to improve

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DOD's ability to identify costs associated with work performed at its individual activities should be considered.

Finally, we have added a recommendation to provide for a reassessment of prior privatization-in-place actions, in light of declining workloads in those facilities and continued excess capacity in both the public and private sectors.

In addition to comments regarding our recommendations, DOD provided technical comments regarding specific findings presented in our draft report. Our evaluation of these comments is provided below.

DOD disagreed with our statement that privatization-in-place does not reduce excess capacity. We have modified our report and recommendations to better reflect our view of the impact of privatization-in-place on the total defense industrial infrastructure, including that in both the public and private sector. We believe that privatization-in-place may reduce excess capacity in DOD's infrastructure to a certain extent. However, we continue to believe that it does not maximize potential efficiencies that could be gained because the workload remains at the privatized facility instead of being transferred to other DOD facilities to further reduce excess capacity. Furthermore, the privatization sites may subsequently acquire additional workloads that could have gone to other underutilized DOD facilities, thus missing an opportunity to further reduce excess capacity. At the same time, some efficiencies may be gained when privatization-in-place options are used to consolidate work from other contractor-operated locations.

DOD stated that privatization-in-place is a BRAC implementation issue, not a BRAC selection issue. We agree that privatization-in-place is a matter of implementation and that initial base closure decisions are made on the basis of excess infrastructure and military value considerations. However, costs to close and return on investment are also factors considered by DOD in its BRAC decision making. An expected outcome of closure decisions is reduced infrastructure operating costs. Before implementing any potential future privatizations-in-place, we continue to believe it would be prudent for DOD to assure that this option is cost-effective and consistent with the overall base closure concept of reducing costly excess infrastructure capacity.

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## Scope and Methodology

To determine how contractors are responding to decreased workloads at the former DOD facilities in Newark, Ohio; Indianapolis, Indiana; and Louisville, Kentucky, we reviewed documents and interviewed officials from both the government and private sectors. Our DOD contacts included those organizations responsible for overseeing the privatization initiatives and program managers who programmed defense workloads for the facilities. Through those contacts, we sought to gain a sense of the progress being made by the privatization contractors and their satisfaction level with the cost, timeliness, and quality of the work being performed. We also visited the privatization-in-place sites, toured the facilities, and discussed operational status and future plans with cognizant contractor officials. We contacted city and local redevelopment authority officials at the various privatization locations to obtain their perspective on the privatized operations.

To examine the cost-effectiveness of the privatization-in-place actions and their impact on DOD's industrial infrastructure, we reviewed prior work on the Louisville, Kentucky, and Newark, Ohio, operations as well as available DOD workload relocation analyses related to the closures of the military facilities at the three locations. We did not examine the cost-effectiveness of the privatizations as compared to the option of closing the facilities and transferring the workloads to other locations, as envisioned under one BRAC option. Further, we did not examine other issues associated with privatization-in-place such as preservation of jobs in the local communities and retention of technological skills needed to provide services, such as depot maintenance, to DOD. Rather, we limited our review to comparisons between costs of the privatizations-in-place and those of the former government-run operations. In that regard, we reviewed July 1997 and November 1998 Air Force cost analyses that compared privatized operational costs with those of former Air Force operations at Newark, Ohio. The latter study was an update to the July 1997 study that we had reviewed in our prior report of the Air Force privatization initiative.<sup>12</sup> In analyzing the most recent cost study, we compared study results with that of the previous work and used DOD's guide for making cost comparisons between public depots and private contractors to ensure that the Air Force study included all applicable cost elements and included any adjustments. We discussed the study results with cognizant Air Force and contractor

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<sup>12</sup> *Air Force Privatization-in-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs* (GAO/NSIAD-98-35, Dec. 22, 1997).

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officials. We also discussed factors that affect the cost-effectiveness of privatization-in-place with Air Force and contractor officials.

For the Navy privatizations at Indianapolis, Indiana, and Louisville, Kentucky, we attempted to identify comparable DOD cost comparison analyses of government versus privatized operations, but found none. We also collected cost data from contractor and Navy sources to make such comparisons. However, we were unable to conduct these analyses because of (1) the absence of sufficient, detailed historical Navy baseline data for operations at the closing military facilities at those sites and (2) Navy-directed revisions in maintenance practices for certain key weapon systems and changes in product mix. While rigorous cost comparisons were not possible, we reviewed selected contractors' costs and discussed business improvements and restructuring initiatives to bring in additional work to the privatization sites with Navy and contractor officials. We did not attempt to identify the impact on other government contracts as a result of workload transfers from other contractor facilities. In addition, we contacted Defense Contract Management Command officials at these sites to obtain contractor-related cost information and their views about contractors' performance.

In conducting our work, we contacted officials from the following organizations:

- Office of the Secretary of Defense in Washington, D.C.;
- Air Force Materiel Command, Dayton, Ohio;
- Air Force Metrology and Calibration Program Office, Newark, Ohio;
- Naval Sea Systems Command and Naval Surface Warfare Center Headquarters, Arlington, Virginia;
- Naval Air Systems Command and Naval Air Warfare Center Headquarters, Patuxent River, Maryland;
- Defense Contract Management Command offices at Newark, Ohio; Louisville, Kentucky; and Indianapolis, Indiana;
- Raytheon Systems Company, Indianapolis, Indiana;
- Raytheon Systems Company and United Defense Limited Partnership, Louisville, Kentucky;
- Boeing North American, Inc., and Wyle Laboratories, Inc., Boeing Guidance Repair Center, Newark, Ohio;
- Louisville/Jefferson County Redevelopment Authority, Louisville, Kentucky;

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B-283515

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- Indianapolis Economic Development Corporation, Indianapolis, Indiana; and
  - Heath-Newark-Licking County Port Authority, Newark, Ohio.

We conducted our review from October 1998 through September 1999 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Honorable Jacob Lew, Director, Office of Management and Budget; the Honorable William S. Cohen, Secretary of Defense; the Honorable F. Whitten Peters, Secretary of the Air Force; the Honorable Richard Danzig, Secretary of the Navy; the Honorable Louis Caldera, Secretary of the Army; General James L. Jones, Commandant of the Marine Corps; and other interested parties. We will make copies available to others upon request.

GAO points of contact concerning this report and other key contributors are listed in appendix III.

Sincerely yours,



David R. Warren, Director  
Defense Management Issues



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# Privatization-in-Place Initiatives

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The following sections provide additional information on DOD privatization-in-place initiatives at Newark, Ohio; Louisville, Kentucky; and Indianapolis, Indiana.

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## Newark, Ohio

The announcement to close the Newark, Ohio, facility as an Air Force managed operation was made in 1993, with workload turnover in October 1996 to two contractors—Rockwell International and Wyle Laboratories. While the Air Force retained most of its existing workload at the privatized facility, the Navy moved most and the Army moved all of their Newark workloads to other sites. For the work remaining at Newark, Rockwell International was awarded a contract for depot repairs of aircraft inertial navigation systems and missile guidance systems and Wyle Laboratories was awarded a contract for operating the primary standards laboratory and providing calibration services. Boeing North American, Inc., has since taken over the Rockwell division responsible for work at Newark. The facility, now called the Boeing Guidance Repair Center, has been turned over by the Air Force to the Heath-Newark-Licking County Port Authority, which leases it to Boeing.

The Port Authority is the Ohio-chartered local redevelopment authority formed to accept the conveyance of the property from the Air Force. It is responsible for managing the property and for economic redevelopment. The lease represents about 88 percent of the old Newark facility space occupied by the contractors. The lease provides that Boeing pay the Port Authority for appropriate administrative operations and staffing, buildings and ground maintenance, and reimbursable charges attributable to on-site fire protection services, some utilities, insurance, and taxes. A portion of the lease is retained in a capital equipment reserve fund to pay for future major facility and equipment repairs or replacements. Wyle Laboratories, in turn, subleases about 17 percent of the facility space from Boeing. It pays a pro rata share of the lease and for other Boeing provided services, including electricity charges, protective services, and building maintenance, based on the square footage it and the co-located offices of the Air Force Metrology and Calibration program<sup>1</sup> occupy.

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<sup>1</sup> The Air Force only privatized the standards lab operations, technical order management, and certain calibration workloads. The Air Force Metrology and Calibration office retained responsibilities for program management, contract oversight, certification of Air Force Primary Measurement Equipment Labs, and standards procurement.

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**Appendix I**  
**Privatization-in-Place Initiatives**

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Until recently, Boeing has been operating under an indefinite delivery/indefinite quantity, cost plus award fee contract that was originally valued at \$264 million. The performance term consisted of the base year (9-month transition period) and four 1-year options. In October 1999, the Air Force renegotiated and awarded a sole-source 15-year contract (5-year basic term and two 5-year options) with Boeing. As a cost plus award fee contract, it features incentive provisions for reducing costs and developing new business. Also, Boeing is in the early stages of implementing several management changes to promote manufacturing efficiencies to include improved process monitoring.

Boeing and government officials believe that future workload requirements at its facility will decline for repairing aircraft and missile items, thus increasing the overhead rate. Aircraft repair requirements are expected to decline by about 6 percent in 2000 with further declines expected through year 2014. Officials attribute these expected declines to normal system retirements and attrition, increasing reliability of newer and future weapon systems, and increasing reliance on original equipment manufacturers for logistics support. Although missile repair requirements were similarly expected to decline with strategic missiles retirements, the life expectancy for those missiles has actually increased, with the resulting missile workload remaining about the same.

To replace declining workloads, retain employment levels, and maintain operating efficiencies, Boeing is actively pursuing future work from other Boeing operations, manufacturing partners, DOD programs, and commercial sources to offset its declining workload. However, it has not been very successful to date. Moreover, Boeing expects very little commercial work—its future nondefense workload is not expected to exceed 5 percent of its total work requirements within the new contract period. If new work is not added to replace declining requirements, repair prices could increase due to overhead.

Wyle Laboratories workload with the Air Force has increased somewhat since contract inception, but the company has had similar difficulties in acquiring new commercial customers. The Wyle Laboratories' contract is similar to the Boeing contract. It is an indefinite delivery/indefinite quantity, cost plus award fee contract consisting of a base year and four 1-year options, ending in September 2000. The contract was originally valued at \$19 million and the current estimate at completion is \$49 million. A Wyle Laboratories' official attributed the cost increase to increased calibration workloads and higher than expected leasing and overhead

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**Appendix I**  
**Privatization-in-Place Initiatives**

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costs. Regarding potential nondefense work, Wyle Laboratories currently performs very little commercial work, and it has no immediate prospects for any major new business.

Prior to privatization, the Newark facility employed about 2,500 personnel. When closure was announced in 1993, the total workforce declined to about 1,500; and, by the official closure date in October 1996, the workforce had declined further, to about 1,350. At start-up, Boeing employed about 800 and Wyle about 100; most workers were former government employees at the Newark facility. About 130 government civilian and military remained in the Air Force Metrology and Calibration Program Office.

Since privatization, Boeing's workforce has decreased, with better matches between personnel and workload requirements and associated small reductions in workload. In October 1997, for example, 77 employees were "reduced-in-force" due to reduced workload requirements forecasted for fiscal year 1998. However, most workforce-related reductions have occurred incrementally over time as a result of Boeing-instituted production and personnel efficiencies. Thus, the Boeing workforce currently numbers about 640.

In contrast, since privatization, Wyle Laboratories' workforce and workload, as well as that pertaining to the co-located Air Force Metrology and Calibration Program Office, have increased and are expected to further increase next year. At time of closure, about 80 government lab technicians were hired by Wyle Laboratories to augment its staff working on primary standards lab operations. The Wyle workforce has since grown to about 125, with added workloads attributable to increased demands for repairing calibration equipment and revising technical orders. It is expected to further increase its workforce to about 140 next year. Likewise, the Air Force Metrology and Calibration Office expects to grow by 20 to 40 employees to accommodate the increased contract management and standard measurement responsibilities associated with the increased Wyle-related workload.

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**Louisville, Kentucky**

The decision to close the Louisville facility was announced in 1995, with workload turnover to two contractors (United Defense Limited Partnership and Hughes Missile Systems Company) occurring in August 1996. Raytheon, the current contractor, subsequently merged with Hughes and took over its operations at Louisville. To implement the privatization, the Navy set up a lease with the Louisville local redevelopment authority,

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**Appendix I**  
**Privatization-in-Place Initiatives**

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known as the Louisville/Jefferson County Redevelopment Authority, for use of the facility until title of the property can be transferred to the redevelopment authority. The lease requires no payments to the Navy and provides for an initial 1-year term with four 1-year renewal options. Under the agreement, the redevelopment authority assumes responsibility for routine protection, repair, and maintenance at the site. The Navy assumes all liability for environmental conditions existing at the time of turnover. An application has been submitted to the Navy by the redevelopment authority for acquisition of the property through an economic development conveyance; it is currently pending.<sup>2</sup>

The redevelopment authority, in turn, leases out the property to the contractors at a rate, which, according to community officials, is below market value. However, the contractors are responsible for operations and maintenance costs for the portion of the facility that they occupy. Any part of the property not leased to the Navy's two contractors or occupied by Navy personnel can be leased to other commercial activities by the redevelopment authority. In fact, 70,000 square feet, or 14 percent, of this available space has been leased to three local commercial enterprises.

Work performed for the Navy at Louisville is done under cost reimbursable type contracts by the two contractors—United Defense and Raytheon. The contracts cover an initial base period from August 1996 through September 1996 with five 1-year options, taking them through fiscal year 2001. There are also agreements that were put into place between the Navy contractors and the local redevelopment authority as a part of their competitive selection by the city of Louisville. These agreements include promises by the contractors to use best efforts to expand their businesses, to hire former government workers at wages equal to what they had earned with the government, and to guarantee employment levels.

The Navy workload has been taken over by United Defense and Raytheon, with some engineering support still being provided by a Navy detachment and its support contractor remaining in place at the Louisville facility.<sup>3</sup> This detachment is working out of buildings still owned and maintained by the

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<sup>2</sup> An economic development conveyance is a means by which a local redevelopment authority may obtain property from DOD at no cost provided the property is to be used for economic development and job creation purposes.

<sup>3</sup> A contractor, CACI Field Services, Inc., which employs about 60 employees at the Louisville facility, provides technical support services to the Navy engineering detachment.

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**Appendix I**  
**Privatization-in-Place Initiatives**

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Navy. Once the Navy has turned over the facility to the local redevelopment authority, the detachment will lease its space at no cost to the government. United Defense is responsible primarily for production, overhaul and maintenance support of naval guns. Raytheon mainly performs production, overhauls, and component repair for the Phalanx close-in-air defense system and the Rolling Airframe Missile launcher. United Defense and Raytheon annual sales are about \$35 million and \$21 million, respectively.

The workload at Louisville has declined significantly from that prior to privatization. Although workload had begun declining prior to privatization, the workload after privatization was even lower than initially estimated. According to United Defense officials, its share of the total Louisville defense work had declined from about 1.3 million direct labor hours in 1994 to 277,000 in 1998, a drop of almost 80 percent. Because of the ongoing decline in work, United Defense only hired a total of 354 employees at the onset of privatization, a reduction of about 60 percent from the prior level of 866 Navy employees. However, according to United Defense officials, it initially expected the workload to be about 449,000 direct labor hours based on prior Navy projections. In response to the lower workload, United Defense further reduced its workforce to 256 employees. Moreover, United Defense returned several buildings to the local redevelopment authority, thereby reducing its facility infrastructure by 40 percent, from about 1 million square feet to about 600,000 square feet. United Defense also redesigned its existing space to allow for a more efficient work process.

Beginning in fiscal year 1999, United Defense has transferred gun production work from its Fridley, Minnesota, plant to Louisville. United Defense projects that, as a result, its total workload at Louisville will stabilize for the next few years. However, this assumes that a significant amount of funding will continue to be provided over the next 2 years from congressionally-designated increases to the Navy's budget. For example, MK-45 gun mount overhaul work, which comprises about 30 percent of United Defense's workload, has been funded in fiscal years 1998 and 1999 primarily through congressionally-designated additions to the Navy's budget. Further, Navy officials maintain that there is little, if any, funding available for this work in the Navy's budget for fiscal years 2000 and beyond without additional funding from the Congress.

In addition to adding work to Louisville, the transfer from Fridley will assist United Defense in reducing its infrastructure. Specifically, United Defense officials assert that after transferring work from Fridley, United

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Privatization-in-Place Initiatives

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Defense will reduce its Fridley space by over 1 million square feet, or 50 percent, and reduce its Fridley workforce by 285 people, or 17 percent.

Raytheon similarly has seen a 50-percent decrease in its maintenance workload, going from about 250,000 thousand direct labor hours in 1994 to about 128,000 thousand hours in 1998. However, the company has transferred in its Phalanx and Rolling Airframe Missile launcher production work from its facility in Tucson, Arizona. As a result of this added work, Navy and Raytheon officials expect a net increase in Raytheon's Louisville workload. The consolidation of Phalanx and Rolling Airframe Missile launcher work at Louisville has also allowed Raytheon to close its plant in Lewisville, Texas, because of the space made available in Tucson.

While Raytheon has not reduced its on-site facility infrastructure, it has updated its entire facility to accommodate the workload changes associated with the new production work. Under Navy direction Raytheon has also made improvements to the process for overhauling Phalanx systems by adopting "condition-based maintenance." Under this approach, only parts that are not working are repaired or replaced as opposed to the prior Navy process of replacing all parts whether working or not. Conditioned-based maintenance has reportedly allowed Raytheon to keep its overhaul costs down.

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## Indianapolis, Indiana

In 1995 the closure of the Indianapolis facility was announced, and on January 6, 1997, the workload was transferred to the Navy's contractor, Hughes Technical Services Company. As is the case in Louisville, Raytheon became the contractor after it merged with Hughes in December 1997. The facility is currently under lease from the Navy to the city of Indianapolis for \$1 per year over a 10-year term with two 5-year renewal options. An application for acquisition of the facility through economic development conveyance has been submitted by the city and is currently pending before the Navy. The redevelopment authority is subleasing the facility to Raytheon for \$1 per year with a lease term of 20 years. Under this lease, Raytheon is responsible for the operation and maintenance costs for the property.

Similar to the situation in Louisville, there are also agreements in place between the city of Indianapolis and Raytheon for such things as hiring former government workers at wages equal to those before privatization and guaranteeing employment levels. Indianapolis also was able to obtain other commitments from Hughes (now Raytheon), including such promises

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**Appendix I**  
**Privatization-in-Place Initiatives**

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as reducing product costs to Navy customers, transferring related lines of work into Indianapolis from other locations, and expanding commercial revenues. However, according to Raytheon officials, the agreement to expand commercial revenues related to a specific product line managed by Hughes that was not acquired by Raytheon after the merger. As such, Raytheon officials at Indianapolis do not anticipate being able to fulfill this promise made by Hughes, and this agreement provision has since been removed by the city of Indianapolis.

Work performed by Raytheon is done for the Navy through a 1-year indefinite delivery contract with four 1-year renewal options. The 5-year contract period runs through December 2001, at which time Raytheon will compete with other private companies for the Navy's business. Raytheon's annual sales at Indianapolis are about \$180 to \$200 million.

The volume of work at Indianapolis, as measured by direct labor hours, has dropped 30 percent since privatization, prompting Raytheon to lay off about 330 employees in mid-1998. According to Navy and Raytheon officials, the reductions in workload occurred primarily because of decreased Navy requirements and the transfer of certain inherently governmental functions to other Navy facilities. However, Raytheon has added new work to Indianapolis, primarily for foreign customers. For example, it has brought in armored tank modification work for Portugal, accounting for about \$31 million in sales. Additionally, Raytheon transferred other DOD work for depot repairs and spares manufacture to Indianapolis from its plant in Long Beach, California. This internal restructuring initiative equated to consolidating about 120,000 square feet from its Long Beach facility at Indianapolis. Raytheon has since closed the Long Beach facility. As a result of Raytheon's efforts to bring in new work to Indianapolis, the older Navy work that existed prior to privatization now only makes up about 65 percent of Raytheon's total business at Indianapolis.

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**Appendix I**  
**Privatization-in-Place Initiatives**

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# Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

See comment 1.



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000

3 NOV 1999

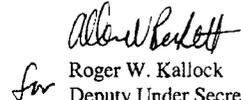
Mr. David R. Warren  
Director, Defense Management Issues  
National Security and International Affairs Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report "MILITARY BASE CLOSURE: Cost-Effectiveness of Privatization-in-Place Is Uncertain" dated September 24, 1999 (GAO Code 709342/OSD Case 1900).

The Department non-concurs with both recommendations contained in the GAO report. An explanation of the DoD position and technical comments are enclosed.

Sincerely,

  
for Roger W. Kallock  
Deputy Under Secretary  
of Defense (Logistics)

Enclosure:  
As stated



Appendix II  
Comments From the Department of Defense

See comment 1.

Now on p. 17.

Now on p. 17.

GAO DRAFT REPORT DATED SEPTEMBER 24, 1999  
(GAO CODE 709342) OSD CASE 1900

“MILITARY BASE CLOSURES : COST-EFFECTIVENESS OF PRIVATIZATION-IN-PLACE IS UNCERTAIN”

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO RECOMMENDATIONS

**Recommendation 1:** Should the Congress authorize additional base realignment and closure rounds and should it consider privatization-in-place as an option, the GAO recommended that the Secretary of Defense assess to what extent privatization-in-place would reduce the DoD's cost of operations related to defense infrastructure principally in the public sector, but also in the private sector defense-supported infrastructure. (p. 14/GAO Draft Report)

**DoD Response:** Non-concur

It is unreasonable to require the DoD to estimate the reduction in operating costs for *both* the public and private sector resulting from privatization-in-place. Specifically, requiring the DoD to determine the reduction in operating costs relative to the private sector defense-supported infrastructure is prohibitive, not to mention out of the scope of BRAC. Moreover, much of this requirement would be sensitive to many factors outside the control of the DoD.

**Recommendation 2:** As the Department improves the reliability of its financial data, the GAO recommended that the Secretary of Defense require the Services to retain an adequate baseline of historical government costs, preferably on a per unit basis, to assess the cost-effectiveness of initiatives such as privatization-in-place. (p. 14/GAO Draft Report)

**DoD Response:** Non-concur

It is unreasonable to expect the DoD require the Services to retain a detailed baseline of historical government costs to assess the cost-effectiveness of initiatives such as privatization-in-place. This requirement would necessitate a change in accounting procedures at most DoD activities. Requiring DoD activities, in the anticipation of future BRAC rounds, to maintain such records for cost comparisons under the privatization-in-place option places each DoD activity under an unnecessary burden.

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**Appendix II  
Comments From the Department of Defense**

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See comment 1.

**TECHNICAL COMMENTS**

**General Accounting Office (GAO) Draft Report "MILITARY BASE  
CLOSURE: Cost-Effectiveness of Privatization-in-Place is Uncertain," Dated  
September 24, 1999 (GAO Code 709342/OSD Case 1900)**

The report makes the statement that "privatization in place does not reduce excess capacity in DoD's own infrastructure." This is false because DoD no longer operates or maintains these properties, and no longer retains the capacity. The GAO report, itself, states that Boeing is leasing the Newark facility from the local Port Authority (who received the property from the Air Force). Similarly, the GAO report also states that in Louisville and Indianapolis, the Navy has leased the properties to local authorities pending final disposal. Further, in all of these cases, it is the contractors, not DoD, that have adjusted their workforce and facilities in response to workload received from DoD and the private sector. For instance, at Louisville, United Defense has reduced its workforce and returned several buildings to the local redevelopment authority for reuse. This is contractor, not DoD capacity.

Second, the report's recommendations regarding estimates of operating costs for both the public and private sector resulting from privatization in place initiatives and historical public cost baselines misses the important point that we have argued that privatization in place is a BRAC implementation issue, not a BRAC selection issue. BRAC closure/realignment decisions are based on excess capacity and military value considerations. Implementation of these decisions through privatization in place or other means is an implementation issue subject to an evaluation of the current, not historical, workload mix. Additionally, historical costs do not reflect the infrastructure efficiencies gained by the BRAC action.

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**Appendix II**  
**Comments From the Department of Defense**

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The following is GAO's comment on the Department of Defense's letter dated November 3, 1999.

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**GAO Comment**

1. We have revised the report title to more accurately reflect the report's primary point that we could not perform cost-effectiveness analyses of all privatization-in-place initiatives due to the lack of data.

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# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Barry Holman (202) 512-8412  
Julia Denman (202) 512-8412

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## Acknowledgments

In addition to those named above, James Reifsynder, Bruce Fairbairn, Joe Faley, and Cary Russell made key contributions to this report.

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# Related GAO Products

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*Defense Depot Maintenance: Use of Public-Private Partnering Arrangements* ([GAO/NSIAD-98-91](#), May 7, 1998).

*Inventory Management: DOD Can Build on Progress by Using Best Practices for Repairable Parts* ([GAO/NSIAD-98-97](#), Feb. 27, 1998).

*Air Force Privatization-in-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs* ([GAO/NSIAD-98-35](#), Dec. 22, 1997).

*Navy Depot Maintenance: Privatizing Louisville Operations in Place Is Not Cost-Effective* ([GAO/NSIAD-97-52](#), July 31, 1997).

*Defense Depot Maintenance: Uncertainties and Challenges DOD Faces in Restructuring Its Depot Maintenance Program* ([GAO/T-NSIAD-97-111](#), Mar. 18, 1997) and ([GAO/T-NSIAD-97-112](#), Apr. 10, 1997).

*Privatization: Lessons Learned by State and Local Governments* ([GAO/GGD-97-48](#), Mar. 14, 1997).

*Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs* ([GAO/T-NSIAD-97-110](#), Mar. 12, 1997).

*High Risk Series: Defense Infrastructure* ([GAO/HR-97-7](#), Feb. 1997).

*Air Force Depot Maintenance: Privatization-in-Place Plans Are Costly While Excess Capacity Exists* ([GAO/NSIAD-97-13](#), Dec. 31, 1996).

*Army Depot Maintenance: Privatization Without Further Downsizing Increases Costly Excess Capacity* ([GAO/NSIAD-96-201](#), Sept. 18, 1996).

*Navy Depot Maintenance: Cost And Savings Issues Related to Privatization-in-Place at the Louisville, Kentucky, Depot* ([GAO/NSIAD-96-202](#), Sept. 18, 1996).

*Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix* ([GAO/T-NSIAD-96-146](#), Apr. 16, 1996) and ([GAO/NSIAD-96-148](#), Apr. 17, 1996).

*Closing Maintenance Depots: Savings, Personnel, and Workload Redistribution Issues* ([GAO/NSIAD-96-29](#), Mar. 4, 1996).

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**Related GAO Products**

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*Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, Dec. 9, 1994).*

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**GAO**

Statement  
Before the Defense Base Closure and Realignment  
Commission

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For Release on Delivery  
Expected at 9:30 a.m. EDT  
Tuesday, May 3, 2005

# Military Base Closures

## Observations on Prior and Current BRAC Rounds

Statement of Barry W. Holman, Director  
Defense Capabilities and Management



May 3, 2005

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# Highlights

Highlights of GAO-05-614, a statement before the Defense Base Closure and Realignment Commission

## Why GAO Did This Study

The Defense Base Closure and Realignment Act of 1990, as amended, authorized a new round of base realignment and closures (BRAC) in 2005, the fifth such round in recent years but the first since 1995. The legislation requires the Secretary of Defense to submit his list of bases recommended for closure and realignment to an independent BRAC commission by May 16, 2005. The Commission is charged with reviewing these recommendations and submitting its report with recommendations to the President for his acceptance or rejection of them in their entirety by September 8, 2005. Subsequently, Congress has final action to accept or reject the recommendations in their entirety later this year. By law, GAO is mandated to review the Department of Defense's (DOD) process and recommendations and to report its findings by July 1, 2005.

For the inaugural hearing of the 2005 BRAC Commission GAO was asked to address: (1) the status of implementing recommendations from previous BRAC rounds, (2) DOD's expectations for the 2005 BRAC round, and (3) the analytical framework for the 2005 BRAC round. GAO offers some suggestions for the Commission to consider as it prepares for the 2005 BRAC round.

[www.gao.gov/cgi-bin/getrpt?GAO-05-614](http://www.gao.gov/cgi-bin/getrpt?GAO-05-614).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry Holman at (202) 512-5581 or [holmanb@gao.gov](mailto:holmanb@gao.gov).

## MILITARY BASE CLOSURES

### Observations of Prior and Current BRAC Rounds

#### What GAO Found

DOD indicates that recommendations from the previous BRAC rounds were implemented within the 6-year period mandated by law. As a result, DOD estimated that it reduced its domestic infrastructure by about 20 percent; about 90 percent of unneeded BRAC property is now available for reuse. Substantial net savings of approximately \$29 billion have been realized over time. Most communities surrounding closed bases are continuing to recover from the impact of BRAC and faring well compared with average U.S. rates for unemployment and income growth. In examining DOD's proposed closures and realignments, the Commission may want to ensure that all proposed closure and realignment actions can be implemented within the mandated 6-year period recognizing property transfers may take longer.

DOD's expectations for the 2005 BRAC round include the traditional emphasis on eliminating unneeded infrastructure and achieving savings. It also expects to use BRAC to further transformation and related efforts such as restationing of troops from overseas as well as efforts to further joint basing among the military services. DOD's preliminary assessment of excess capacity completed outside the BRAC process in 2004 to help justify the 2005 round has led to much speculation about the percentage of bases likely to close. While DOD's assessment gave some indication of excess capacity across certain functional areas, GAO's assessment showed the methodology had significant limitations, such as use of varying capacity metrics among the military services for similar type facilities. As a result, it is difficult to use that data to make a reliable projection of total excess capacity across DOD, or projections of number of bases likely to close. Further, the methodology neither fully considered the potential impact of major force structuring and other rebasing changes nor the impact of analyzing facilities or functions on a joint or cross-service basis, a priority for the 2005 round. As a result, we await the results of DOD's proposed closures and realignments to see the extent of potential capacity reduction and how the results of this round compare with prior rounds. The Commission may want to look at such measures as projected net reduction in plant replacement value or square footage of space as reduction indicators.

The 2005 BRAC round process follows a historical analytical framework with many elements of the process being carried forward or building upon lessons learned from the past. A key part of that framework is the selection criteria which essentially follow a framework similar to that employed in prior BRAC rounds, with more specificity in selected areas mandated by Congress. The Commission may want to be aware of changes for the 2005 round based on lessons learned from the past related to such issues as privatizing functions in place as a closure option, considering total cost to the government in evaluating closure and realignment recommendations, clarifying the size of reserve enclaves that may be created, and strengthening the emphasis on cross-servicing of selected functions and increased jointness in basing decisions.

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Mr. Chairman and Members of the Commission:

I am pleased to have the opportunity today to provide you with an overview of our work involving the Department of Defense's (DOD) base realignment and closure (BRAC) process and give some context for the challenging task before you through a retrospective view of prior rounds and some perspectives on the unfolding 2005 round that the BRAC Commission may want to consider. My testimony today addresses the (1) status of implementing the recommendations from the four prior BRAC rounds; (2) Secretary of Defense's expectations for BRAC 2005 and the difficulty in getting a handle on the amount of excess capacity that may be reduced; and (3) analytical framework for the previous and current BRAC process, and how changes related to the 2005 round could affect the work of this year's Commission.

GAO has played a long-standing role in the BRAC process. As requested by congressional committees (1988 BRAC round) or mandated by law since 1990, we have served as an independent and objective observer of the BRAC process and have assessed and reported on DOD's decision-making processes leading up to proposed realignment and closure recommendations in each of the four prior rounds. To make informed and timely assessments, we have consistently operated in a real-time setting since the 1991 BRAC round and have had access to portions of the process as it has evolved, thus affording the department an opportunity to address any concerns we raised on a timely basis. We have been observing the 2005 BRAC process since DOD's initial work began on the 2005 round. Because of our ongoing monitoring of DOD's BRAC 2005 process, and some access to the internal workings of that process, any comments by me today regarding specifics of the 2005 round must of necessity be somewhat limited because of nondisclosure requirements that remain in place until DOD releases its list of recommended closures and realignments later this month.

In preparing this testimony, we relied largely on our prior work related to assessing BRAC decision-making processes and implementation of the previous four rounds. Appendix I has a listing of our previous reports on the base realignment and closure process. Our previous work was performed in accordance with generally accepted government auditing standards.

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## Summary

DOD reported that as of September 30, 2001, it had taken all necessary actions to implement the recommendations of the BRAC Commissions for the four prior rounds. As a result, DOD estimated that it had reduced its domestic infrastructure by about 20 percent measured in terms of facilities plant replacement value.<sup>1</sup> The following summarize the status of recommendations with respect to property transfer, savings, and economic recovery of communities affected by the last four rounds.

- BRAC recommendations were implemented within the 6-year period mandated by law. As of September 2004, DOD data show that about 72 percent (about 364,000 acres) of the approximately 504,000 acres of unneeded BRAC property from the previous four rounds had been transferred to other federal and nonfederal entities.<sup>2</sup> When leased acreage is added to property that has already been transferred, the amount of unneeded BRAC property that is available for reuse rises to 90 percent. About 140,000 acres have not yet been transferred, primarily because of delays resulting from environmental cleanup requirements that DOD is obligated to address to ensure that former base property is cleaned up to a level sufficiently safe for its intended reuse. In looking at the Secretary of Defense's recommendations for the 2005 BRAC round, the Commission may want to assure itself that all proposed closure and realignment actions can be implemented within the mandated 6-year period. Property transfers are not subject to the 6-year implementation period.
- Based on our analysis of DOD data, the department generated substantial net estimated savings (estimated total savings minus costs) of about \$29 billion through fiscal year 2003 from the previous four BRAC rounds, and it expects to save about \$7 billion annually thereafter. Our work has shown that these savings actually reflect cost avoidances, that is, money that DOD would likely have needed to operate BRAC bases had they remained open. At the same time, our reviews have found that DOD's savings estimates are not precise but instead rough approximations of the likely savings, in part because the military services have not regularly updated their estimates over time and

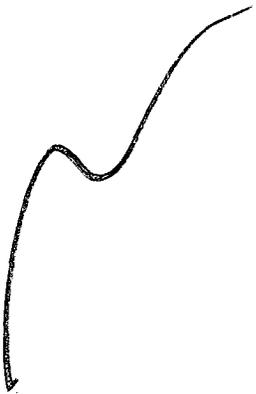
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<sup>1</sup> DOD defines plant replacement value as the cost to replace an existing facility with a facility of the same size at the same location, using today's building standards.

<sup>2</sup> In this statement, "transferred property" refers to property that has been deeded to another user; it does not include leased property.

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because DOD's accounting systems are not oriented toward identifying and tracking savings. From the BRAC Commission perspective, it is important to note that historically most reported DOD savings result from reductions in operation and maintenance and military personnel costs.

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- Most communities surrounding closed bases are continuing to recover from the impact of BRAC. DOD data show that almost 85 percent of local DOD civilian jobs that were lost on bases as a result of realignments and closures have been replaced through development of the properties. Two key economic indicators—the unemployment rate and the average annual real per capita income growth rate—show that BRAC communities are generally doing well when compared with average U.S. rates. As we have reported in the past, the recovery process has not necessarily been easy with the strength of the national economy and the diversity of local economies having a significant bearing on the recovery of any particular community facing a BRAC closure. From the BRAC Commission perspective, few bases were eliminated from closure or realignment in prior rounds due to economic impact, but this is an issue the Commission will hear much about as it engages communities affected by the Secretary's proposed closures and realignments.

DOD's expectations for the 2005 BRAC round include the traditional emphasis on eliminating unneeded infrastructure and achieving savings, but they also extend to using BRAC to further transformation efforts such as restationing of troops from overseas as well as improving joint basing among the military services. Nevertheless, much emphasis has been given to estimating the amount of excess capacity in advance of the BRAC round and that has led to much speculation about the number or percentage of bases that are likely to close. That is a tougher issue to deal with than it might seem on the surface as evidenced by an earlier assessment of excess capacity that DOD was required to complete in advance of the BRAC round. The results of that analysis were included in a 2004 report to Congress<sup>3</sup> in justifying the need for the 2005 BRAC round. While that report did give indications of excess capacity, our work shows the analysis did not give a well-grounded assessment of total excess capacity across DOD or the potential for achieving greater efficiencies in use of that capacity. It has also led to much speculation on the number of bases likely to be closed in this BRAC round. Our analysis indicated that DOD's methodology for that

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<sup>3</sup> Report required by Section 2912 of the Defense Base Closure and Realignment Act of 1990.

report had limitations, such as use of varying capacity metrics among the military services for similar type facilities, that made it difficult to get a precise reading on excess capacity across various functional areas, and made it even more difficult to credibly project a total amount of excess capacity across DOD. Moreover, in completing its analysis, the military services assessed their bases as though they were being used for a single function, and did not consider either the existing or the potential for increased multi-functional/joint-use that was identified as an objective of the 2005 BRAC round—and which provides the potential for better identifying excess capacity or opportunities to use existing capacity more efficiently for multiple purposes. As a result, we must await the results of DOD's proposed closures and realignments to see the extent of capacity reductions and to determine how this round compares with prior rounds in that regard. The Commission may want to look at such measures as projected net reduction in plant replacement value or square footage of space as meaningful indicators of the magnitude of reductions in BRAC 2005.

The BRAC process follows a historical analytical framework with many elements of the process being carried forward or building upon lessons learned from previous rounds. First, the selection criteria essentially follow a framework that is similar to that employed in previous BRAC rounds, with more specificity in selected areas—especially in those that speak to military value. In this regard, the criteria give priority to military value and incorporate such factors as joint warfighting, training, readiness, and the ability to accommodate contingency and mobilization requirements, as is called for in the fiscal year 2002 legislation.<sup>4</sup> In addition, the 2005 round is expected to incorporate several lessons learned from the previous rounds, such as privatizing functions in place rather than closing facilities and moving affected work to other locations, not always considering total cost to the government when examining individual closure or realignment decisions, clarifying the size of reserve enclaves that may be created when bases are closed or realigned, and strengthening the role of the joint cross-service teams.

<sup>4</sup> P.L. 107-107, section 3002 (Dec. 28, 2001).

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## Background

To enable DOD to close unneeded bases and realign other bases, Congress enacted legislation that instituted BRAC rounds in 1988, 1991, 1993, and 1995.<sup>5</sup> A special commission established for the 1988 round made realignment and closure recommendations to the Senate and House Committees on Armed Services. For the 1991, 1993, and 1995 rounds, special BRAC Commissions were set up, as required by legislation, to make specific recommendations to the President for his approval, who in turn sent the Commissions' recommendations to Congress. The four Commissions generated 499 recommendations—97 major closures and hundreds of smaller base realignments, closures, and other actions.<sup>6</sup> Of the 499 recommendations, 451 required action; the other 48 were modified in some way by a later commission. DOD was required to complete BRAC realignment and closure actions for the 1988 round by September 30, 1995, and for the 1991, 1993, and 1995 rounds within 6 years from the date the President forwarded the recommended actions to Congress.

Legislation authorizing the BRAC rounds has also stipulated that closure and realignment decisions must be based upon selection criteria, a current force structure plan, and infrastructure inventory developed by the Secretary of Defense. Further, the selection criteria were required to be publicized in the *Federal Register* to solicit public comments on the criteria before they were finalized. The criteria historically have included four related to military value, one related to return on investment, and three related to community impacts. However, the National Defense Authorization Act of 2002<sup>7</sup> required DOD to give priority to the criteria dealing with military value for the 2005 BRAC round.

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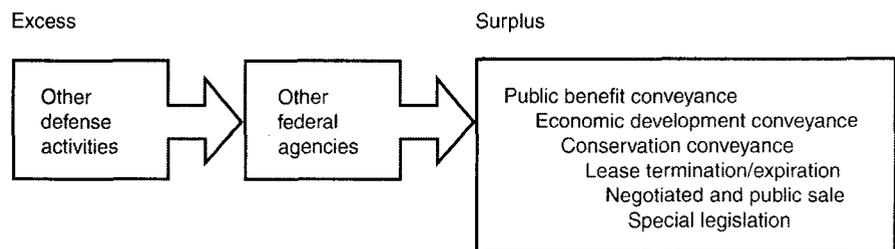
<sup>5</sup> The 1988 round was completed under the Defense Authorization Amendments and Base Closure and Realignment Act (P.L. 100-526, Title II (Oct. 24, 1988), as amended). The last three rounds were completed under the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510, Title XXIX (Nov. 5, 1990), as amended).

<sup>6</sup> The number of recommendations may vary depending on how they are categorized. In this report, the recommendations include closures, realignments, disestablishments, relocations, and redirections. In a closure, all missions that are carried out at a base either cease or relocate, while in a realignment, a base remains open but loses and sometimes gains missions. "Disestablishments" and "relocations" refer to missions; those disestablished cease operations, while those relocated are moved to another base. "Redirections" refer to cases in which a BRAC Commission changes the recommendation of a previous commission.

<sup>7</sup> P.L. 107-107, Section 3002 (Dec. 28, 2001).

While DOD has closed or realigned bases as recommended by the various BRAC Commissions, other actions, such as the cleanup of environmentally contaminated property and the subsequent transfer of unneeded property to other users, have extended beyond the 6-year implementation period for each round. Once DOD no longer needs BRAC property, the property is considered excess and is offered to other federal agencies. As shown in figure 1, any property that is not taken by other federal agencies is then considered surplus and is disposed of through a variety of means to state and local governments, local redevelopment authorities,<sup>8</sup> or private parties.

**Figure 1: DOD's Usual Procedures for Transferring Property**



Source: GAO.

The various methods noted in figure 1 to convey unneeded property to parties external to the U.S. government are targeted, in many cases, to a particular end use for the property. For example, under a public benefit conveyance, state and local governments and local redevelopment authorities acquire surplus DOD property for such purposes as schools, parks, and airports for little or no cost. Under an economic development conveyance, property is transferred for uses that promote economic recovery and job creation. Conservation conveyances, which were introduced in the Bob Stump National Defense Authorization Act for Fiscal Year 2003,<sup>9</sup> provide for the transfer of property to a state or political subdivision of a state or qualified not-for-profit groups for natural resource

<sup>8</sup> A local redevelopment authority is any authority or instrumentality established by a state or local government and recognized by the Secretary of Defense, through the Office of Economic Adjustment, as the entity responsible for developing the redevelopment plan with respect to an installation or for directing implementation of the (land reuse) plan.

<sup>9</sup> PL. 107-314, § 2811, 2812 (Dec. 2, 2002).

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and conservation purposes. Property can, in other cases, also be conveyed to nonfederal parties through the other cited methods as shown in figure 1 without regard, in many cases, to a particular end use. For example, property can be sold or special congressional legislation can dictate transfer to a particular entity.

The National Defense Authorization Act for Fiscal Year 2002<sup>10</sup> extended the authority of the Defense Base Closure and Realignment Act of 1990, with some modifications, to authorize an additional BRAC round in 2005. The 2002 legislation also required the Secretary of Defense to publish in the *Federal Register* the selection criteria proposed for use in the BRAC 2005 round and to provide an opportunity for public comment. The proposed selection criteria were published on December 23, 2003, with a public comment period ending January 30, 2004. The final criteria were published on February 12, 2004. The criteria for the 2005 BRAC round continue the tradition of having four criteria related to military value that are to be given priority consideration, and four others that require consideration. As discussed more fully later in this statement, while the eight criteria essentially follow a framework similar to that employed in previous BRAC rounds, greater specificity was added to selected criterion as mandated by Congress for the 2005 round.

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## Status of Prior BRAC Recommendations

Following the adoption of the previous BRAC recommendations, DOD declared 504,000 acres of property as unneeded and available for transfer to other federal or nonfederal entities. As of September 30, 2004, DOD had transferred about 72 percent of that property while 28 percent had not been transferred, due primarily to the need for environmental cleanup. According to DOD data, the BRAC recommendations have generated substantial savings—an estimated \$29 billion in savings or cost avoidances through fiscal year 2003, with expectations of an additional \$7 billion in annual net recurring savings thereafter. Finally, while BRAC can have a traumatic short-term effect on communities in the vicinity of closing or realigning bases, most nearby communities continue to recover from BRAC actions. Our analysis of key economic indicators shows that most communities are generally faring well in terms of national averages for unemployment and income growth rates.

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<sup>10</sup> P.L. 107-107, Title XXX (Dec. 28, 2001).

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**Implementation of Previous  
Recommendations and  
Status of Property Transfers**

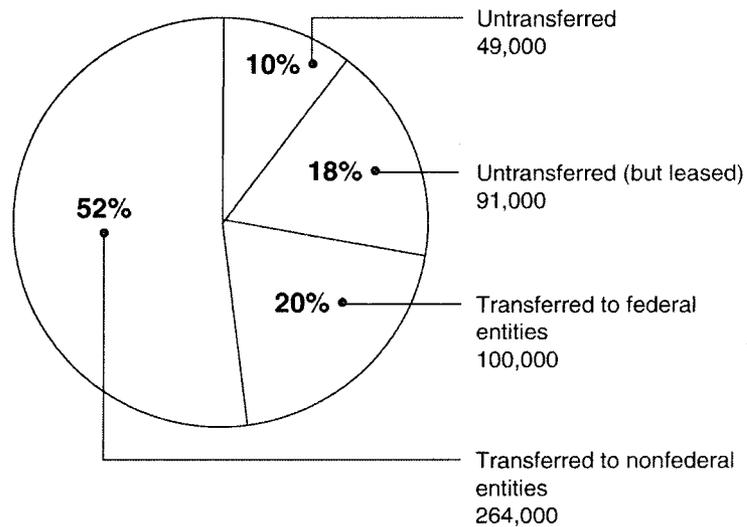
DOD reported that as of September 30, 2001, it had taken all required actions to implement the recommendations of the BRAC Commissions for the four rounds.<sup>11</sup> Currently, of the approximately 504,000 unneeded acres available for disposal external to DOD, 72 percent have been transferred either to other federal or nonfederal entities, while 28 percent, including leased acreage, remain in DOD's inventory. A breakdown of the current status of unneeded BRAC property shows that as of September 30, 2004 (1) 52 percent had been transferred to nonfederal entities, (2) 20 percent had been transferred to other federal agencies, (3) 18 percent had been leased but not transferred, and (4) 10 percent was untransferred and is awaiting future disposition (see fig. 2).

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<sup>11</sup> The 1995 BRAC round recommendation to close family housing units on Fort Buchanan, Puerto Rico, was not implemented because the National Defense Appropriations Act for Fiscal Year 1999 (P.L. 105-262, Section 8142 (Oct. 17, 1998), authorized the Secretary of Defense to retain all or a portion of the units to support the U.S. Army South's (USARSO) relocation from Panama to Fort Buchanan. On September 30, 2003, USARSO officially completed a further restationing from Puerto Rico to Texas.

**Figure 2: Disposition of Unneeded BRAC Acreage**

Total acreage = 504,000



Source: GAO's analysis of DOD data.

Note: As part of the BRAC process, DOD retained approximately 350,000 acres for reserve component use.

Even though DOD has 140,000 acres of its BRAC property remaining to be transferred, much of this land is in long-term lease with other users. Altogether, the services have nearly 91,000 acres (65 percent) of their untransferred property under lease, leaving 49,000 acres (35 percent) that has not been transferred and is not in reuse. The department expects that this property will eventually be transferred to nonfederal users. Leased property, while not transferred to the user, can afford the user and DOD some benefits. Communities, for example, can opt for leasing while awaiting final environmental cleanup as an interim measure to promote property reuse and job creation. By adding leased acres to the number of transferred acres, the amount of unneeded BRAC property that is in reuse rises to 90 percent.

What may be different for this BRAC round is that Congress, in authorizing the 2005 BRAC round, gave renewed emphasis to seeking fair market value in disposing of BRAC property<sup>12</sup> and we have seen evidence of this in recent land sales by the Navy for some remaining property disposals from prior BRAC rounds. It is too soon for us to know to what extent land sales will occur in implementing results of the 2005 round in comparison with other forms of property disposal such as no-cost economic development conveyances, or transfers to other federal agencies. While this is not an issue that bears directly on the Commission's task of assessing the Secretary's recommendations, it could be an issue that will arise in your contacts with communities as you complete your task.

While DOD has closed or realigned bases as recommended by the various BRAC Commissions, other actions, such as the cleanup of environmentally contaminated property and the subsequent transfer of unneeded property to other users, continue beyond the 6-year implementation period for each round. As we have reported in the past, environmental cleanup constraints have delayed the military services from rapidly transferring unneeded BRAC property. Army data show that about 82 percent of the Army's approximately 101,000 untransferred acres have some kind of environmental impediment, such as unexploded ordnance (UXO)<sup>13</sup> or some level of chemical contamination that requires cleanup before transfer can take place. Navy data show that about 65 percent of the Navy's almost 13,000 untransferred acres could not be transferred because of environmental reasons. Likewise, about 98 percent of the Air Force's approximately 24,000 untransferred acres is attributable to environmental cleanup issues. While the Commission is likely to be confronted with the issue of environmental cleanup in examining the Secretary's recommendations, complete information is not always fully available during the time frame for the Commission's work since cleanup costs are affected by yet-to-be-developed reuse plans.

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<sup>12</sup> P.L. 107-107, Section 3006 (Dec. 28, 2001).

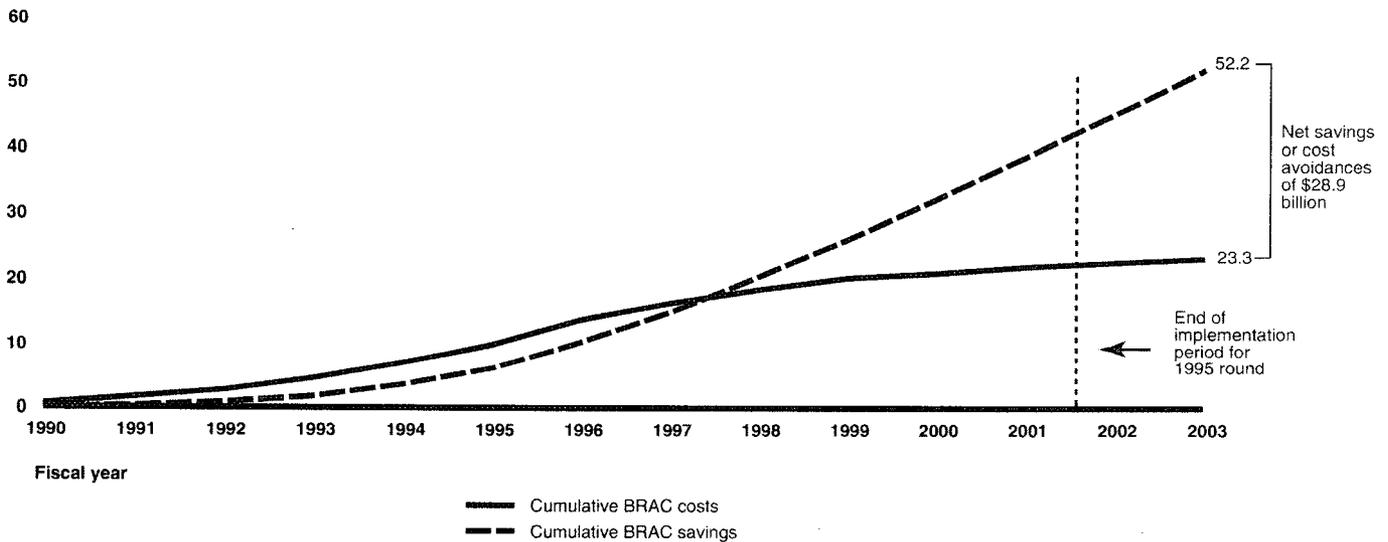
<sup>13</sup> UXO is ordnance that remains unexploded either through malfunction or design and can injure personnel or damage material. Types of UXO include bombs, missiles, rockets, artillery rounds, ammunition, or mines. DOD, *Defense Environmental Restoration Program Annual Report to Congress—Fiscal Year 2003* (Washington, D.C., April 2004), Appendix F, page F-21. In this report UXO also refers to munitions and explosives of concern.

### Net Savings Estimates for the Prior BRAC Rounds Remain Substantial

Our analysis of DOD data shows that the department had accrued an estimated \$29 billion in net savings or cost avoidances through fiscal year 2003 for the four previous BRAC rounds.<sup>14</sup> In calculating net savings, DOD deducts the costs of implementing BRAC actions for the four closure rounds from the estimated savings. As figure 3 shows, the cumulative estimated savings surpassed the cumulative costs to implement BRAC actions in 1998, and the net savings have grown and will continue to grow from that point, even though some costs (e.g., environmental cleanup) have been incurred after that time and some costs will continue for a number of years until cleanup or required monitoring is completed.

**Figure 3: Cumulative BRAC Cost and Savings Estimates for the Previous Rounds through Fiscal Year 2003**

Dollars in billions



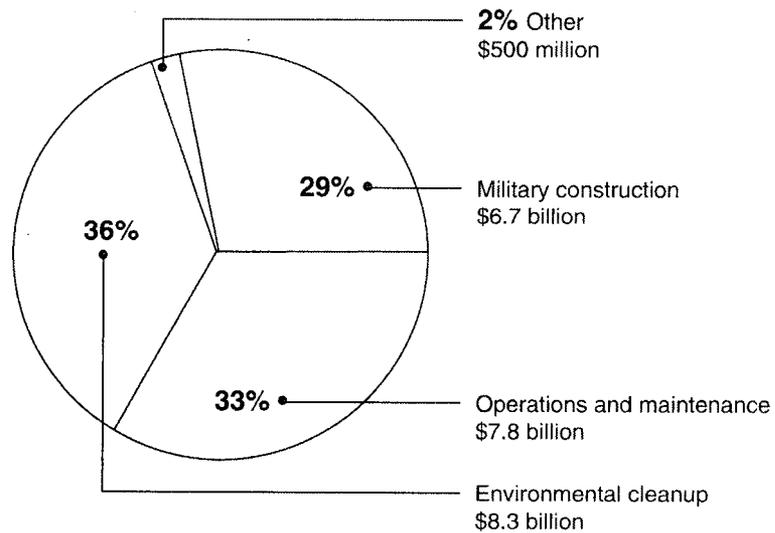
Source: GAO's analysis of DOD data.

<sup>14</sup> This does not include about \$1.9 billion in costs incurred by other DOD and federal agencies to provide assistance to communities and individuals impacted by BRAC. DOD estimates of annual recurring savings beyond fiscal year 2003 do not take into account the estimated \$3.6 billion in costs that are needed to complete environmental cleanup at BRAC bases.

Our analysis shows that the rate of net savings accumulation has increased over time because the cumulative BRAC costs flattened out just before the 6-year implementation period for the last round ending in fiscal year 2001.

Most expenses associated with closures and realignments were incurred through fiscal year 2001; most of the expenses beyond fiscal year 2001 were primarily incurred for environmental cleanup. Through fiscal year 2003, the cumulative costs to implement the four previous round actions amounted to about \$23.3 billion. As shown in figure 4, approximately one-third (\$7.8 billion) of this amount was spent for operations and maintenance, such as the maintenance and repair needed to keep facilities and equipment in good working order, as well as civilian severance and relocation costs. A little more than one-third (\$8.3 billion) was spent on environmental cleanup and compliance activities, for example, to reduce, remove, and recycle hazardous wastes and to remove unsafe buildings and debris from closed bases. Finally, a little less than one-third (\$6.7 billion) was used for military construction at bases that were not closed, including renovating existing facilities and constructing new buildings to accommodate relocating military units and various functions.

**Figure 4: Costs Incurred for Prior BRAC Rounds through Fiscal Year 2003**  
**Total = \$23.3 billion**

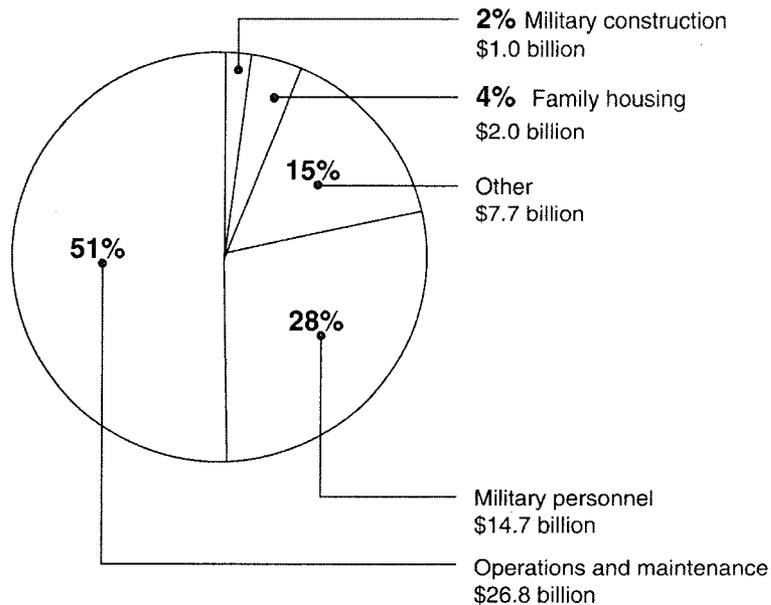


Source: GAO's analysis of DOD data.

As figure 5 shows, DOD estimates that it accrued BRAC savings of \$52.2 billion through fiscal year 2003 as a result of eliminating or reducing operation and maintenance costs, including base support costs, and eliminating or reducing military and civilian personnel costs. Of this amount, about half (\$26.8 billion) can be attributed to savings from operation and maintenance activities, such as terminating or reducing physical security, fire protection, utilities, property maintenance, accounting, civilian payroll, and a variety of other services that have associated costs. An additional \$14.7 billion in estimated savings resulted from military personnel reductions.

**Figure 5: Estimated Savings Breakout for Prior BRAC Rounds through Fiscal Year 2003**

Total: \$52.2 billion (exclusive of implementation costs)



Source: GAO's analysis of DOD data.

Based on the previous rounds, the Commission should expect that the majority of the savings from the 2005 recommendations will result from reductions in operation and maintenance and military personnel costs.

### Most Affected Communities Are Recovering from Prior BRAC Rounds

While the short-term impact can be very traumatic, several factors, such as the strength of the national, regional, and local economies, play a role in determining the long-term economic impact of the base realignment or closure process on communities. Our work has shown that recovery for some communities remains a challenge, while other communities surrounding a base closure are faring better. As DOD last reported, as of September 30, 2004, almost 85 percent (110,086) of the 129,649 DOD civilian jobs lost on military bases as a result of realignments or closures in the previous BRAC rounds had been replaced at these locations as the properties were redeveloped. I want to emphasize that this recovery figure does not include other jobs created off the bases. Appendix II gives a detailed listing of jobs lost and created at major BRAC locations during the

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last four rounds. In addition, two key economic indicators—the unemployment rate and the average annual real per capita income growth rate—show that BRAC communities are generally doing well when compared with average U.S. rates. Since 1997 (after completion of the implementation periods for the first two rounds, in 1988 and 1991) and through the implementation periods of the past two rounds (1993 and 1995), about 70 percent of the 62 BRAC-affected communities have consistently been at or below the national unemployment rate.

Appendix III provides more information on the average unemployment rates and on the average annual real per capita income growth rates for 62 communities affected by previous BRAC actions.

Our previous reports have pointed out a number of factors that can affect economic recovery including the robustness of the national economy, diversity of the local economy, and assistance from various federal agencies to facilitate recovery efforts. By way of comparison, I would note that the national unemployment rate at the time of the 1995 round was 5.4 percent; today it is 5.2 percent.

We have previously reported that as of September 30, 2004, federal agencies reported that they had spent about \$1.9 billion for such purposes as base reuse planning, airport planning, job training, infrastructure improvements, and community economic development. These activities include the following:

- About \$611 million was provided by the Department of Commerce's Economic Development Administration to assist communities with infrastructure improvements, building demolition, and revolving fund loans.
- About \$760 million was provided by the Federal Aviation Administration to assist with converting former military airfields to civilian use.
- About \$223 million was provided by the Department of Labor to help communities retrain workers who lost their jobs.
- About \$280 million was provided by DOD's Office of Economic Adjustment to help communities plan and implement the reuse of BRAC bases.

While economic impact is one of the selection criteria used in BRAC decision making, few bases were eliminated from closure or realignment

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consideration in previous rounds because of potential economic impact. Having said that, I would point out that while, from an economic impact standpoint, BRAC is most known for the losses suffered by communities, some communities gained missions and personnel as the result of BRAC decisions. The 2005 BRAC round could potentially have a greater impact on gaining communities than in past rounds since this round is expected to be used to inform decisions on placement of units and thousands of personnel returning from overseas in implementing the results of the department's separate overseas basing study. Also, there are major force structure changes underway in the Army with the creation of new units of action which expand on existing brigade sizes. Each of these could impact community infrastructure in many areas such as housing and schools. However, we will not have a clear indication of any such expanded impacts until the Secretary's BRAC recommendations are made public in a few days.

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## DOD's Expectations for BRAC 2005

DOD recognized at the time it was completing its recommendations for the 1995 BRAC round that excess infrastructure would remain and that additional closures and realignments would be needed in the future. The BRAC 2005 round continues the goal of previous rounds of reducing excess infrastructure within the department and achieving savings that could be applied to other priorities. However, DOD expanded the focus of BRAC 2005 to include transformation issues, to accommodate restationing of forces from overseas, and to improve jointness efforts among the military services.

In a memorandum dated November 15, 2002, the Secretary of Defense issued initial guidance outlining goals for the 2005 BRAC round. He noted that, at a minimum, BRAC 2005 must eliminate excess physical capacity—the operation, sustainment, and recapitalization of which diverts scarce resources from defense capability. At the same time, the Secretary's guidance depicted the round as focusing on more than simply reducing excess capacity. He stated that the round could make an even more profound contribution to transforming the department by rationalizing its infrastructure and defense strategy. He further noted that another primary objective of the round was to examine opportunities for greater joint activity.

While the broader goals of BRAC 2005 have increased traditional interest in the potential outcome of this BRAC round, great public attention has been devoted to the issue of excess capacity and how many bases are likely to be

closed in this round. While we await the Secretary's announcement of proposed closures and realignments in a few days, the Commission may want to review an earlier assessment of excess infrastructure capacity that DOD was required to complete in advance of the BRAC round which has led to much public speculation about what could result from this round. The result of that analysis was included in a 2004 report to Congress in justifying the need for the 2005 BRAC round. Although that report did give indications of excess capacity, our work shows the analysis on which it was based did not provide a well-grounded assessment of total excess capacity across DOD or the potential for achieving greater efficiencies in use of that capacity. It also led to much speculation on the number of bases likely to be closed in this BRAC round.

DOD's analysis of its infrastructure capacity for the 2004 report, which was completed outside the 2005 BRAC process, indicates the presence of excess capacity across certain functional areas through fiscal year 2009. However, the limitations of the methodology used for that analysis, such as use of varying capacity metrics among the military services for similar type facilities, prevented it from giving a precise indication of excess capacity across all classes of facilities. This raises questions about the appropriateness of its use to project a total amount of excess capacity across DOD. Furthermore, DOD's methodology did not analyze facilities or functions on a joint or cross-service basis to determine any additional excess capacity, but such a cross-service analysis is a priority for the 2005 round. Moreover, it did not fully consider the impact of force structure changes underway and the planned restationing of thousands of forces from overseas bases. Based on this, it is problematic for anyone to try to add up these diverse measures and point to a single cumulative figure of excess capacity. Even more problematic are efforts to translate this figure to a set percentage of bases that are likely to be closed.

While previous BRAC rounds have focused primarily on reducing excess capacity, DOD officials have stated that in addition to that goal, the 2005 BRAC round aims to further transform the military by correlating base infrastructure to the force structure, and enhancing joint capabilities by improving joint utilization. That approach takes you past the point of simply focusing efforts on reducing excess infrastructure and generating savings. As a result, we must await the results of the Secretary of Defense's closure and realignment recommendations to see how the extent of capacity reduction proposed in this round compares to that in prior rounds. If you are looking for indicators of capacity reduction in BRAC 2005, the Commission may want to focus on such measures as net reduction in plant

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replacement value or square footage of space. While these are not all-inclusive indicators, they should give you some sense of the potential impact of the 2005 round.

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## 2005 BRAC Analytical Framework Builds on Historic Structure

The framework used in the 2005 BRAC round continues the historical framework used in previous rounds. The Defense Base Closure and Realignment Act of 1990 led to the creation of what has become a structured process for making BRAC recommendations and one that gives the public insight into the basis for recommendations made by the Secretary of Defense. Selection criteria for the 2005 BRAC round preserve a framework similar to that used in earlier BRAC rounds, with specificity added in several areas that pertain to military value. In addition, the framework for the 2005 round is expected to incorporate several lessons learned from the previous rounds, related to privatization in place, total cost to the government, reserve enclaves, and cross-service issues.

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## Requirements to Ensure Fairness of BRAC Process

Closing unneeded defense facilities has historically been difficult because of public concern about the economic effects of closures on communities and the perceived lack of impartiality in the decision-making process. A variety of requirements or procedures have been either mandated by the 1990 act, as amended, or adopted by DOD over time to ensure the fairness and objectivity of the base closing process. Some of these requirements or procedures include:

- All installations must be compared equally against selection criteria and a current force structure plan must be developed by the Secretary of Defense.
- Decisions to close military installations with authorization for at least 300 civilian personnel must be made under the BRAC process. Decisions to realign military installations authorized for at least 300 civilian personnel that involve a reduction of more than 1,000—or 50 percent or more of the civilian personnel authorized—also must undergo the BRAC process. DOD components retain the option of including facilities/activities that fall below the threshold.
- Selection criteria for identifying candidates for closure and realignment must be made available for public comment before being finalized.

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- All components must use specific models for assessing (1) the cost and savings associated with BRAC actions and (2) the potential economic impact on communities affected by those actions.
  - Information submitted for use by the Secretary of Defense or the Commission in the BRAC decision-making process must be certified—that is, certified as accurate and complete to the best of the originator's knowledge and belief. This requirement was designed to overcome concerns about the consistency and reliability of data used in the process.
  - An independent commission is required to review DOD's proposed closures and realignments and to finalize a list of proposed closures and realignments to be presented to the President for his review and subsequent submission to Congress.
  - The BRAC Commission is required to hold public hearings.
  - The BRAC process imposes specific time frames for completing specific portions of the process.
  - The President and Congress are required to accept or reject the Commission's recommendations in their entirety.
  - In addition to GAO's legislatively mandated role in reporting on the BRAC process, the military service audit agencies and DOD Inspector General personnel are extensively involved in auditing the process to better ensure the accuracy of data used in decision making and enhance the overall integrity of the process.

An important tool used in the BRAC process for analyzing estimates of costs and savings for potential recommendations is the Cost of Base Realignment Actions (COBRA) model. This model has been used in the base closure process since 1988, with improvements made to the model in the intervening years. We noted in 1995 that two of the more significant actions affecting BRAC 1995 were the validation of the COBRA model by the Army Audit Agency and a greater emphasis on using standard cost factors. Refinements to the model historically have been initiated and controlled by a COBRA Joint Process Action Team. We will be reporting on recent efforts to update the model in our upcoming report on the BRAC 2005 process.

In the interim, it is important to distinguish between the use of the COBRA model for evaluating alternative closure and realignment scenarios and use of other efforts to produce more refined cost and budget data for implementing BRAC decisions. Differences between COBRA and budget quality data used in implementing BRAC decisions include the following. First, COBRA estimates, particularly those based on standard cost factors, are averages, which are later refined for budget purposes. Further, COBRA costs are expressed in constant-year dollars; budgets are expressed in then-year (inflated) dollars.

Our work in examining lessons learned from previous BRAC rounds found general agreement that the previous legislation and the framework it established served the process well, and general agreement that this framework would be useful for a future round.<sup>15</sup> That is not to say that the previous process was perfect or entirely devoid of concerns over the role of politics in the process. As we have previously noted, we recognize that no public policy process, especially none as open as BRAC, can be completely removed from the U.S. political system. However, the elements of the process noted above provide several checks and balances to hold political influences at a minimum. That said, the success of these provisions requires that all participants of the process adhere to the rules and procedures.

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<sup>15</sup> See GAO/NSIAD-97-151.

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### Selection Criteria for 2005 Round Continue Sound Framework Used in Prior Rounds

The department's final selection criteria for the 2005 BRAC round essentially follow a framework similar to that employed in previous BRAC rounds, with specificity added in selected areas in response to requirements mandated by Congress. The 2002 legislation authorizing the 2005 BRAC round required that DOD give priority to military value and consider (1) the impact on joint warfighting, training, and readiness; (2) the availability and condition of training areas suitable for maneuver by ground, naval, or air forces throughout diverse climates and terrains, and staging areas for use by the armed forces in homeland defense missions; and (3) the ability to accommodate contingency, mobilization, and future force requirements. The legislation also required DOD to give consideration to other factors, many of which replicated criteria used in previous BRAC rounds. Further, the legislation required DOD to consider cost impacts to other federal entities as well as to DOD in its BRAC decision making. Additionally, the National Defense Authorization Act for Fiscal Year 2004<sup>16</sup> required DOD to consider surge requirements in the 2005 BRAC process. Table 1 compares the 1995 BRAC criteria with those adopted for 2005, with changes highlighted in bold.

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<sup>16</sup> P.L. 108-136, section 2822, (Nov. 24, 2003).

**Table 1: BRAC Criteria from 1995 and Those Adopted for 2005**

Criteria for 1995 round	Criteria for 2005 round
<p><u>Military value</u></p> <ol style="list-style-type: none"> <li>1. The current and future mission requirements and the impact on operational readiness of DOD's total force.</li> <li>2. The availability and condition of land, facilities, and associated airspace at both the existing and potential receiving locations.</li> <li>3. The ability to accommodate contingency, mobilization, and future total force requirements at both the existing and potential receiving locations.</li> <li>4. Cost and manpower implications.</li> </ol> <p><u>Return on investment</u></p> <ol style="list-style-type: none"> <li>5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of completion of the closure or realignment, for the savings to exceed the costs.</li> </ol> <p><u>Community impacts</u></p> <ol style="list-style-type: none"> <li>6. The economic impact on communities.</li> <li>7. The ability of both the existing and potential receiving communities' infrastructures to support forces, missions, and personnel.</li> <li>8. The environment impact.</li> </ol>	<p><u>Military value</u></p> <ol style="list-style-type: none"> <li>1. The current and future mission capabilities and the impact on operational readiness of the Defense Department's total force, <b>including the impact on joint warfighting, training, and readiness.</b></li> <li>2. The availability and condition of land, facilities, and associated airspace (<b>including training areas suitable for maneuver by ground, naval, or air forces throughout diversity of climate and terrain areas and staging areas for the use of the Armed Forces in homeland defense missions</b>) at both existing and potential receiving locations.</li> <li>3. The ability to accommodate contingency, mobilization, <b>surge</b>, and future total force requirements at both existing and potential receiving locations to <b>support operations and training.</b></li> <li>4. The cost <b>of operations</b> and the manpower implications.</li> </ol> <p><u>Other considerations</u></p> <ol style="list-style-type: none"> <li>5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of completion of the closure or realignment, for the savings to exceed the costs.</li> <li>6. The economic impact on <b>existing communities in the vicinity of military installations.</b></li> <li>7. The ability of the infrastructure of both the existing and potential receiving communities to support forces, missions, and personnel.</li> <li>8. The environmental impact, <b>including the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities.</b></li> </ol>

Source: GAO based on information from DOD and legislation (emphasis bolding added by GAO to denote changes from 1995).

I want to note that the National Defense Authorization Act for Fiscal Year 2005 codified these criteria in its entirety.<sup>17</sup>

Our analysis of lessons learned from previous BRAC rounds affirmed the soundness of these basic criteria and generally endorsed their retention for the future, while recognizing the potential for improving the process by which the criteria are used in decision making.<sup>18</sup> Adoption of these criteria adds to the approach an element of consistency and continuity with those of the past three BRAC rounds.

<sup>17</sup> P.L. 108-375, Section 2832 (Oct. 28, 2004).

<sup>18</sup> See GAO/NSIAD-97-151.

*Has there been a standardized mission narrative got on to consistency / deviation from criteria?*

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Apart from changes to DOD's criteria required by legislation, DOD received a variety of comments on the draft criteria once they were published for comment in the *Federal Register* in December 2003, but did not make any changes before issuing the final criteria in February 2004. Most of these comments were on the four military value criteria and centered on the maintenance of adequate surge capacity; the roles military installations fulfill in homeland defense missions; the unique features of research, development, test, and evaluation facilities; and the preservation of vital human capital in various support functions. In responding to those comments, DOD expressed the view that the draft criteria adequately addressed these issues and DOD did not see the need to make any changes to its draft criteria. For example, DOD said that surge requirements will be addressed under criterion one, which requires the department to consider "current and future mission capabilities," and criterion three, which requires DOD to consider an installation's ability to "accommodate contingency, mobilization, and future total force requirements" to support operations and training.

Collectively, in our view, many of the public comments on DOD's criteria expressed concern that the criteria for the 2005 BRAC round focused more on assessing military value based on military missions and operational capabilities without recognizing important support capabilities such as research, development, test, and evaluation. Although modifications to the criteria might have been made to address some of these concerns, the absence of such changes did not indicate that these issues would not be considered in applying the criteria during the BRAC process. For example, the department has established a variety of joint cross-service groups<sup>19</sup> to analyze various support functions during the upcoming round and each group has had to adapt the selection criteria to assess military value related to each functional area. Historically, in assessing military value DOD components typically identify multiple attributes, facets, or evaluative components related to each military value criteria, then identify a number of qualitative metrics and numerous questions to collect data to support the overall military value analysis. Our July report on the 2005 process will highlight the use of military value criteria by each service and cross-service group.

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<sup>19</sup> DOD has established seven joint cross-service groups to examine the following defense functional support areas—industrial, technical, medical, headquarters and support activities, supply and storage, education and training, and intelligence—during the 2005 BRAC process.

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## Lessons Learned from Previous Rounds Have Implications for 2005 BRAC Round

Our prior work has identified several lessons learned from the conduct of the prior BRAC rounds that we believe you should be aware of in reviewing DOD's proposed closure and realignment recommendations for the 2005 round and finalizing your decisions on the merits of those recommendations. These lessons learned relate directly to the development of individual recommendations and include issues related to (1) the privatization-in-place of specific DOD facilities; (2) the consideration of total costs to the government in implementing specific recommendations; (3) the retention of property and facilities, typically referred to as enclaves, on closing bases; and (4) the consideration of cross-servicing in fostering jointness in the decision-making process.

### Privatization-in-place

The 1993 and 1995 BRAC rounds were notable for a few recommendations that resulted in functions being privatized-in-place rather than being closed with the work moved to another location. In December 1999,<sup>20</sup> we reported that privatization-in-place had not optimized reductions in excess capacity in DOD's infrastructure, but that it can allow for some cost savings in the overall public-private defense infrastructure. Rather than closing facilities to reduce excess capacity, privatization-in-place enables the workload to remain at those sites. As a result, DOD continues to support costs associated with maintaining that facility infrastructure through rates charged by the contractors for the work performed. We concluded that privatization-in-place would only be a more cost-effective alternative if contractors can achieve savings that are significant enough to offset the savings lost by not relocating workloads to DOD's underutilized facilities. In enacting authority for the 2005 BRAC round, Congress stipulated that privatization-in-place can occur only if it is specified in the Commission recommendations and determined by the Commission to be the most cost-effective method of implementing the recommendation.<sup>21</sup> I am not in a position today to say to what extent this will be a factor in the 2005 round, but I did want to bring this to your attention in case it does become an issue during your deliberations.

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<sup>20</sup> GAO, *Military Base Closures: Lack of Data Inhibits Cost-Effectiveness Analyses of Privatization-in-Place Initiatives*, GAO/NSIAD-00-23 (Washington, D.C.: Dec. 20, 1999).

<sup>21</sup> P.L. 107-107, Section 3004 (Dec. 28, 2001).

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**Total cost to the government**

Our report on the 1995 BRAC process noted that although the proposed closure of one Air Force base would decrease the Air Force's overhead, it could result in an increase in operational costs to the Department of Energy. We reiterated a concern we had made in an earlier BRAC round that some DOD BRAC decisions excluded consideration of costs that may be incurred by other federal agencies, and we recommended that DOD at least disclose such costs. In enacting authority for the 2005 BRAC round, Congress stipulated that the selection criteria related to cost or savings of proposed closures would have to take into account the effect of the proposed action on the costs of any other DOD activity or any other federal agency.<sup>22</sup> I am not in a position today to say to what extent this may be an issue in the 2005 BRAC round but did want to bring it to your attention for its potential consideration.

**Reserve enclaves**

The four previous BRAC Commissions recommended 27 actions in which either a reserve enclave or similar reserve presence was to be formed at a base that was to be closed or realigned. In June 2003,<sup>23</sup> we reported that the specific infrastructure needed for many reserve enclaves was generally not identified until after the base closure and realignment commission for a closure round had rendered its recommendations. According to Army officials, while the Army had generally decided it wanted to retain much of the available training land for its enclaves prior to completion of commission decision making during the 1995 round, time constraints precluded the Army from fully identifying the specific training acreages and facilities needed until after the commission made its recommendations. Consequently, while some of the commission's recommendation language<sup>24</sup> for the 1995 closure round suggested that many Army reserve enclaves would retain minimum essential facilities, the language was nevertheless sufficiently general to allow the Army wide flexibility in creating such enclaves. Subsequently, several enclaves were created by the Army that were nearly as large as the closing bases on which they were located. In contrast, the infrastructure needed for Air Force enclaves was more clearly

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<sup>22</sup> P.L. 107-107, Section 3002 (Dec. 28, 2001).

<sup>23</sup> GAO, *Military Base Closures: Better Planning Needed for Future Reserve Enclaves*, GAO-03-723 (Washington, D.C.: June 27, 2003).

<sup>24</sup> See Defense Base Closure and Realignment Commission, *1995 Report to the President* (Washington, D.C.: July 1, 1995). The report recommendation language generally provided that the Army bases be closed or realigned, except that minimum essential ranges, facilities, and training areas be retained for reserve component use.

defined during the decision-making process and subsequent commission recommendations were more specific than those provided for the Army. Table 2 provides a comparison of the reported size and number of facilities of pre-BRAC bases with those of post-BRAC enclaves for DOD's 10 major enclaves.

**Table 2: DOD Pre-BRAC and Post-BRAC Base Acreage and Facilities for Bases Where Major Reserve Enclaves Were Created**

Service	Base	Number of acres			Square footage of facilities		
		Pre-BRAC	Post-BRAC	Percent retained	Pre-BRAC	Post-BRAC	Percent retained
Army	Fort Hunter Liggett	164,762	164,272	100	836,420	832,906	100
	Fort Chaffee	71,381	64,272	90	4,839,241	1,695,132	35
	Fort Pickett	45,145	42,273	94	3,103,000	1,642,066	53
	Fort Dix	30,997	30,944	100	8,645,293	7,246,964	84
	Fort Indiantown Gap	17,797	17,227	97	4,388,000	1,565,726	36
	Fort McClellan	41,174	22,531	55	6,560,687	873,852	13
	Fort Devens	9,930	5,226	53	5,610,530	1,537,174	27
Air Force	March Air Force Base	6,606	2,359	36	3,184,321	2,538,742	80
	Grissom Air Force Base	2,722	1,380	51	3,910,171	1,023,176	26
	Homestead Air Force Base	2,916	852	29	5,373,132	867,341	16
<b>Total</b>		<b>394,430</b>	<b>351,386</b>	<b>89</b>	<b>46,450,795</b>	<b>19,823,079</b>	<b>43</b>

Source: DOD.

Note: "Major" reserve enclaves refer to those enclaves with more than 500 acres. "Pre-BRAC" refers to base data at the time of the BRAC Commission recommendation while "Post-BRAC" refers to enclave data as of the end of fiscal year 2002. Percentages are rounded to nearest whole number.

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We also reported that the Army did not include estimated costs to operate and maintain most of its major reserve enclaves in deriving net estimated base savings during the decision-making process. Our analysis as well as that of the Army Audit Agency<sup>25</sup> showed that the omission of these costs had a significant impact on the estimated savings and payback periods<sup>26</sup>—important considerations in the realignment and closure decision-making process—for several of these bases. In particular, the estimated savings were overstated and the estimated payback periods were understated for those specific bases. DOD concurred with our recommendation that in BRAC 2005 it should ensure that data provided to the BRAC Commission clearly specify the (1) infrastructure (e.g., acreage and total square footage of facilities) needed for any proposed reserve enclaves and (2) estimated costs to operate and maintain such enclaves. To the extent that DOD proposes the creation of enclaves in the 2005 round, the Commission may want to ensure that both infrastructure requirements and costs to operate and maintain the enclaves are clearly identified and factored in relevant BRAC recommendations.

#### Cross-service issues

While previous BRAC rounds were generally effective in dealing with basing decisions within individual services and defense agencies, they did not provide an adequate forum for resolving cross-service issues. While some cross-service emphasis occurred in the 1993 and 1995 BRAC rounds, their contributions were essentially marginalized by a process that was largely driven by the individual military services. Our previous lessons learned report<sup>27</sup> noted that parochial interests and disagreements among the services over evaluations of their facilities served as barriers to achieving significant cross-service agreements in 1993 and 1995. As a result, the department missed opportunities to reduce its infrastructure in various support-functional areas.

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<sup>25</sup> The Army revised its estimate of costs and savings from these actions following an Army Audit Agency review of this issue in July 1997.

<sup>26</sup> A payback period is the time required for cumulative estimated savings to exceed the cumulative estimated costs incurred as a result of implementing BRAC actions.

<sup>27</sup> GAO, *Military Bases: Lessons Learned from Prior Base Closure Rounds*, GAO/NSIAD-97-151 (Washington, D.C.: July 25, 1997).

A primary objective of BRAC 2005 is to examine and implement opportunities for greater joint activity. Based on lessons learned from previous efforts to analyze jointness, the Secretary of Defense has established seven joint cross-service groups<sup>28</sup> to analyze common business-oriented support functions. Each group is chaired by a senior member of the department and includes representatives from each service. The joint cross-service groups were empowered to make recommendations directly to the Infrastructure Steering Committee, the group established by the Secretary of Defense to oversee the analyses of the joint cross-service groups and ensure integration of that process with the military departments. This suggests the potential for these cross-service groups to have a stronger role in the 2005 BRAC process than they had in the past.

In conclusion, we have completed much work to date in monitoring DOD's decision-making process but much work remains to finalize our review and issue our report by the mandated July 1 time frame. From a front-end perspective, we have gained much insight observing the military services and cross-service teams developing and implementing their plans for completing their analyses, and identifying and analyzing potential closure and realignment scenarios. However, we still have much work to do before finalizing and issuing our report to meet our congressionally mandated reporting time frame. In the time remaining, as DOD's candidate recommendations are finalized, we will be looking back through the process examining the collection of recommendations against the framework of DOD's selection criteria, its objectives for the round, and with a special emphasis on cost and savings. I look forward to discussing the results of our work with you and your staff once our work is completed. This concludes my statement. I would be pleased to answer any questions you or other Members of the Commission may have at this time.

#### **Contacts and Acknowledgments**

For further information regarding this statement, please contact Barry W. Holman at (202) 512-5581. Individuals making key contributions to this statement include Michael Kennedy, James Reifsnyder, Tom Mahalek, Alissa Czyz, and Cheryl Weissman.

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<sup>28</sup> These teams are Education and Training, Headquarters and Support Activities, Industrial, Intelligence, Medical, Supply and Storage, and Technical.

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# Key Previous GAO Reports on DOD's Base Realignment and Closures

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*Military Base Closures: Updated Status of Prior Base Realignment and Closures.* GAO-05-138. Washington, D.C.: January 13, 2005.

*Military Base Closures: Assessment of DOD's 2004 Report on the Need for a Base Realignment and Closure Round.* GAO-04-760. Washington, D.C.: May 17, 2004.

*Military Base Closures: Observations on Preparations for the Upcoming Base Realignment and Closure Round.* GAO-04-558T. Washington, D.C.: March 25, 2004.

*Military Base Closures: Better Planning Needed for Future Reserve Enclaves.* GAO-03-723. Washington, D.C.: June 27, 2003.

*Military Base Closures: Progress in Completing Actions from Prior Realignments and Closures.* GAO-02-433. Washington, D.C.: April 5, 2002.

*Military Base Closures: DOD's Updated Net Savings Estimate Remains Substantial.* GAO-01-971. Washington, D.C.: July 31, 2001.

*Military Bases: Status of Prior Base Realignment and Closure Rounds.* GAO/NSIAD-99-36. Washington, D.C.: December 11, 1998.

*Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure.* GAO/NSIAD-99-17. Washington, D.C.: November 13, 1998.

*Military Bases: Lessons Learned from Prior Base Closure Rounds.* GAO/NSIAD-97-151. Washington, D.C.: July 25, 1997.

*Military Bases: Closure and Realignment Savings Are Significant, but Not Easily Quantified.* GAO/NSIAD-96-67. Washington, D.C.: April 8, 1996.

*Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment.* GAO/NSIAD-95-133. Washington, D.C.: April 14, 1995.

*Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments.* GAO/NSIAD-93-173. Washington, D.C.: April 15, 1993.

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**Appendix I**  
**Key Previous GAO Reports on DOD's Base**  
**Realignments and Closures**

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*Military Bases: Observations on the Analyses Supporting Proposed Closures and Realignments.* GAO/NSIAD-91-224. Washington, D.C.: May 15, 1991.

*Military Bases: An Analysis of the Commission's Realignment and Closure Recommendations.* GAO/NSIAD-90-42. Washington, D.C.: November 29, 1989.

## Appendix II

# Civilian Jobs Lost and Created at Major BRAC Locations Affected by the Previous Four Rounds

The closure or realignment of military bases creates job losses at these facilities, but subsequent redevelopment of the former bases' property provides opportunities for creating new jobs. The data presented in table 3 include civilian jobs lost and created at major base realignments and closures during the previous four BRAC rounds, as of September 30, 2004. The data do not include the job losses that may have occurred elsewhere in a community, nor do they capture jobs created from other economic activity in the area.

**Table 3: Civilian Jobs Lost and Created at Major Locations Affected by Four Previous BRAC Rounds (as of September 30, 2004)**

Major base	BRAC round	Estimated jobs lost	Estimated jobs created	Recovery (percent)
Alameda Naval Air Station and Naval Aviation Depot, Calif.	1993	3,228	1,448	45
Barbers Point Naval Air Station, Hawaii	1993	618	100	16
Bayonne Military Ocean Terminal, N.J.	1995	2,015	995	49
Bergstrom Air Force Base, Tex.	1991	927	4,359	470
Carswell Air Force Base, Tex.	1991	869	271	31
Castle Air Force Base, Calif.	1991	1,149	2,326	202
Cecil Field Naval Air Station, Fla.	1993	995	1,615	162
Chanute Air Force Base, Ill.	1988	1,035	1,869	181
Charleston Naval Complex, S.C.	1993	6,272	2,797	45
Chase Field Naval Air Station, Tex.	1991	956	1,018	106
Eaker Air Force Base, Ark.	1991	777	509	66
El Toro Marine Corps Air Station, Calif.	1993	979	123	13
England Air Force Base, La.	1991	682	1,963	288
Fitzsimmons Army Medical Center, Colo.	1995	1,612	1,116	69
Fort Benjamin Harrison, Ind.	1991	1,050	1,171	112
Fort Devens, Mass.	1991	2,178	4,180	192
Fort McClellan, Ala.	1995	2,156	2,028	94
Fort Ord, Calif.	1991	2,835	2,020	71
Fort Pickett, Va.	1995	245	272	111
Fort Ritchie, Md.	1995	1,373	42	3
Fort Sheridan, Ill.	1988	1,681	0	0
Gentile Air Force Station, Ohio	1993	2,804	1,800	64
George Air Force Base, Calif.	1988	506	1,631	322
Glenview Naval Air Station, Ill.	1993	389	4,098	1,053
Griffiss Air Force Base, N.Y.	1993	1,341	1,297	97

**Appendix II  
Civilian Jobs Lost and Created at Major  
BRAC Locations Affected by the Previous  
Four Rounds**

*(Continued From Previous Page)*

<b>Major base</b>	<b>BRAC round</b>	<b>Estimated jobs lost</b>	<b>Estimated jobs created</b>	<b>Recovery (percent)</b>
Grissom Air Force Base, Ind.	1991	792	1,036	131
Guam Naval Complex	1993	2,193	552	25
Homestead Air Force Base, Fla.	1993	136	423	311
Hunters Point Annex Naval Shipyard, Calif.	1991	93	1,150	1,237
Indianapolis Naval Air Warfare Center, Ind.	1995	2,196	1,776	81
Jefferson Proving Ground, Ind.	1988	387	179	46
Kelly Air Force Base, Tex.	1995	10,912	5,296	49
K.I. Sawyer Air Force Base, Mich.	1993	788	1,202	153
Letterkenny Army Depot, Pa.	1995	2,512	916	36
Lexington Army Depot, Ky.	1988	1,131	1,316	116
Long Beach Naval Complex, Calif.	1991	4,487	3,975	89
Loring Air Force Base, Maine	1991	1,311	1,161	89
Louisville Naval Ordnance Station, Ky.	1995	1,435	822	57
Lowry Air Force Base, Colo.	1991	2,275	5,666	249
March Air Force Base, Calif.	1993	997	678	68
Mare Island Naval Shipyard, Calif.	1993	7,567	1,363	18
Mather Air Force Base, Calif.	1988	1,012	4,498	444
McClellan Air Force Base, Calif.	1995	8,828	3,469	39
Memphis Defense Distribution Depot, Tenn.	1995	1,289	1,045	81
Memphis Naval Air Station, Tenn.	1993	250	148	59
Myrtle Beach Air Force Base, S.C.	1991	784	1,571	200
New York (Staten Island) Naval Station, N.Y.	1993	1,001	0	0
Newark Air Force Base, Ohio	1993	1,760	944	54
Norton Air Force Base, Calif.	1988	2,133	4,551	213
Oakland Military Complex, Calif.	1993	2,834	487	17
Ogden Defense Distribution Depot, Utah	1995	1,105	2,468	223
Orlando Naval Training Center, Fla.	1993	1,105	412	37
Pease Air Force Base, N.H.	1988	400	5,124	1,281
Philadelphia Defense Distribution Supply Center, Pa.	1993	1,485	1,270	86
Philadelphia Naval Complex, Pa.	1991	8,119	2,775	34
Plattsburgh Air Force Base, N.Y.	1993	352	1,096	311
Presidio of San Francisco, Calif.	1988	3,150	1,087	35
Red River Army Depot, Tex.	1995	386	183	47
Reese Air Force Base, Tex.	1995	1,238	468	38
Sacramento Army Depot, Calif.	1991	3,164	1,900	60
San Diego Naval Training Center, Calif.	1993	402	120	30

**Appendix II  
Civilian Jobs Lost and Created at Major  
BRAC Locations Affected by the Previous  
Four Rounds**

*(Continued From Previous Page)*

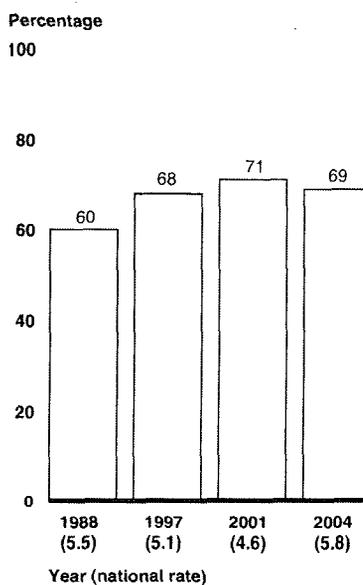
Major base	BRAC round	Estimated jobs lost	Estimated jobs created	Recovery (percent)
Savanna Army Depot, Ill.	1995	436	103	24
Seneca Army Depot, N.Y.	1995	273	1,205	441
Sierra Army Depot, Calif.	1995	374	7	2
Stratford Army Engineering Plant, Conn.	1995	1,400	0	0
Tooele Army Depot, Utah	1993	1,942	907	47
Treasure Island Naval Station, Calif.	1993	454	282	62
Tustin Marine Corps Air Station, Calif.	1991	348	16	5
Vint Hill Farms Station, Va.	1993	1,472	901	61
Warminster Naval Air Warfare Center, Pa.	1991	2,311	789	34
Watertown AMTL, Mass.	1988	540	1,167	216
Williams Air Force Base, Ariz.	1991	728	3,704	509
Wurtsmith Air Force Base, Mich.	1991	690	830	120
<b>Total: 73 bases</b>		<b>129,649</b>	<b>110,086</b>	<b>85</b>

Source: DOD Office of Economic Adjustment.

# Economic Recovery at Major BRAC Locations

Unemployment rates in BRAC-affected communities continue to compare favorably with the national average. Since 1997 (after completion of the implementation periods for the first two rounds in 1988 and 1991) and through the implementation periods of the last two rounds (1993 and 1995), about 70 percent of the 62 BRAC-affected communities have consistently been at or below the national unemployment rate (see fig. 6).

**Figure 6: Comparison of the Percentage of 62 BRAC-Affected Communities at or below the Average National Unemployment Rate over Time**



Source: GAO's analysis of DOD data.

According to our analysis of the annual unemployment rates for the 7-month period ending July 31, 2004, most of the 62 BRAC-affected communities compared favorably with the national average and were consistent with the results we reported in 2002. During this period, 43 of the 62 communities (69 percent) affected by base closures had unemployment rates at or below the average 7-month national rate of 5.8 percent. This is one less community than in our 2002 report, when 44 communities (71 percent) had average unemployment rates lower than the (then) average 9-month national rate of 4.6 percent. For all BRAC communities with higher-than-average calendar year 2004 unemployment rates through July 2004, 4 had double-digit rates: Merced County, California

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**Appendix III**  
**Economic Recovery at Major BRAC Locations**

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(Castle Air Force Base), 15.8 percent; Mississippi County, Arkansas (Eaker Air Force Base), 13.0 percent; Salinas, California (Fort Ord Army Base), 11.1 percent; and Iosco County, Michigan (Wurtsmith Air Force Base), 10.2 percent. Salinas, California, is the one addition to the other three communities that we also cited in our 2002 report for having double-digit unemployment rates.

Annual real per capita income growth rates for BRAC-affected communities exhibit mixed results. The latest available data (1999-2001 time frame) show that 30 (48 percent) of the 62 communities we studied had an estimated average real per capita income growth rate that was above the national average of 2.2 percent.<sup>1</sup> This represents a decline from our 2002 report in which 33 communities (53 percent) matched or exceeded the national rate of 3.03 percent during the 1996-1999 time frame. Additionally, our current analysis shows that of the 32 communities below the national average, 6 communities (10 percent) had average annual per capita income growth rates that were close to the national average (defined as within 10 percent), while the remaining 26 communities (42 percent) were below the national average growth rate. Forty-six (74 percent) of the 62 communities had lower per capita income growth rates than when we last reported on them in 2002. Three communities—Merced, California (Castle Air Force Base); Austin-San Marcos, Texas (Bergstrom Air Force Base); and Carroll County, Illinois (Savanna Army Depot)—had negative growth rates. By comparison, our 2002 report showed that no communities experienced a negative growth rate.

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<sup>1</sup> Average annual real per capita income rates for 2002-2003 or later incorporate new Office of Management and Budget metropolitan area definitions that are not consistent with those for the communities we have assessed in this and previous BRAC update reports.

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