BRAC Commission

AUG 12 2005

Received

SMITH

CHARLES E. SMITH COMMERCIAL REALTY

2345 CRYSTAL DRIVE ▪ CRYSTAL CITY ▪ ARLINGTON, VIRGINIA 22202 ▪ 703-769-8200

August 12, 2005

The Honorable Anthony J. Principi
Chairman, Defense Base Closure and Realignment Commission
2521 S. Clark St., Ste. 600
Arlington, VA 22202

Re: Consolidation of Military Medical Commands

Dear Chairman Principi:

Please accept this letter as formal community input on the proposed consolidation and relocation of the various offices of the military medical commands and the TriCare Management Agency (TMA). TMA, the Office of the Army Surgeon General and many offices of the Air Force Surgeon General are currently located in several leased facilities in the Northern Virginia area, primarily the Skyline City complex along the I-395 corridor. The Office of the Navy Surgeon General is located at space known as the Potomac Annex along the Potomac River in the District of Columbia. The remaining offices of the Air Force Surgeon General are located at Bolling AFB. The Department of Defense proposed relocating both the Air Force and Navy's Surgeons General to new facilities on the campus of the National Naval Medical Center at Bethesda, MD. As you are well aware, the Commission then acted to add the remaining medical components for consideration.

At the hearing held by the Commission on August 10 on this matter, witnesses urged the Commission not to co-locate all of the various medical components inasmuch as the Department itself did not recommend such co-location and the Department is itself still studying whether a major reorganization of the medical components would be desirable. DOD determined that there was no military value in moving the Skyline-based medical components to another site through the BRAC process. We would urge the Commission to defer to the Department's judgment on this matter and decline to recommend any change in the current location of TMA, Army Surgeon General and Air Force Surgeon General components currently located at Skyline.

In fact, the Undersecretary of Defense for Acquisition, Technology and Logistics and Chair of the Department's Infrastructure Steering Group, Michael Wynne, testified before the Commission on July 18 that DoD could not identify operational synergy that would be created simply by co-locating commands. Co-location of the medical components currently based in Skyline at a military base would be premature, and very costly, amounting to over $100 million dollars in outlay by DoD based on estimates being considered by the Commission.

In the event, however, that the Commission does conclude that it desirable to co-locate the medical components, including TMA, the Army Surgeon General and Air Force Surgeon General units currently at Skyline, then we respectfully request that the Commission give serious consideration to consolidation of the various medical components to the Skyline City complex. We believe this alternative provides a much more cost effective solution, as well as a solution providing both the necessary security compliances and proximity efficiencies.

As a prelude to addressing a Skyline consolidation alternative, we would ask the Commission review what we believe to be a fundamental flaw in DoD's analysis of all leased space options. DoD began its analysis of all Department components in leased space with the fundamental predetermined goal of vacating leased space. (The medical components at the Skyline complex were one of the few exceptions, as the Commission noted, and acted upon.) As a result, the military value analysis of leased space was designed by the Department to achieve that preconceived outcome. For example, while DoD-owned installations in Northern Virginia (Arlington, Fairfax County, and Alexandria) received high scores for proximity to educational resources and transportation infrastructure, leased installations in those same communities received scores of zero on these same criteria, despite the same proximity, simply because the installation was in leased space. The Department designed the military value scoring to reach the objective of vacating leased space, rather than evaluating, on an equal footing as the law requires, the military value of DoD installations irregardless of whether that installation was in leased space or on a military base.

Having dismissed the military value of leased space as a class, in general the Department sought to further justify its recommendations based on the desire to:

a) ensure that agency personnel are housed in a building that complies with the new antiterrorism/force protection (AT/FP) standards;
b) achieve costs savings; and,
c) consolidate the various components to one location.

With respect to DoD's concerns with leased space in general, we would like to comment on each of these DoD rationales and respectfully request the Commission give careful scrutiny and consideration to each of these issues. We would also like to point out that the Department cited no mission based reason that some elements of the medical commands should be consolidated to Bethesda, when in fact the primary customer of these headquarters activities are not patients, but rather the Secretary of Defense and other policy professionals located at the Pentagon.

The first two rationales, and in turn the overall DoD imperative to vacate leased space, are based on two false assumptions, namely 1) that currently-leased space cannot be made compliant with DoD's force protection standards and 2) that leased space is not cost effective. While it is relevant to note that DoD did not, in fact, apply these standards to the Army Surgeon General or the TMA, for the purpose of Commission consideration we believe it is important to note that, in fact:

- Many current DoD leased space facilities can be made compliant with the Department's new AT/FP standards, and a number of buildings are either currently compliant or could become so with relatively minimal cost and disruption.

- The Skyline City complex, located along Leesburg Pike, is just such an example. A five-building complex at Skyline can be brought into full compliance with DoD's force protection standards in just 18-24 months. Moreover, the four buildings that house most of TMA and the Army Surgeon General can be made AT/FP compliant at a cost of approximately $34 million. The cost to provide new facilities will be almost $100 million, over three times the cost of upgrading the existing building to DoD force protection standards.

- A campus for DOD at Skyline could be created with the TRICARE Management Activity, the U.S. Army Surgeon General and DISA, also located at Skyline, as its anchors. That campus, consisting of the DISA facility at Seven Skyline Place, and four other buildings (Four, Five and Six Skyline Place and One Skyline Tower) which house the TMA, Army Surgeon General and some offices of the Air Force Surgeon General could over time, provide the Federal Government with 1.8 million rentable square feet that would be AT/FP compliant.

- The parking garages for Skyline Buildings Four, Five, Six and the Tower would become secured facilities to meet the DOD force protection standards (the parking garage for Seven Skyline Place (housing DISA) is already a secured parking garage under DOD control). In doing so, employees of these DOD organizations could be provided with parking in designated areas within the secured garage facility, on terms that would be worked out with DOD and GSA. While generally GSA will not pay for employee parking as a component of rent, both GSA and DOD have entered into operating agreements with lessors to secure control of parking garages and the cost to employees for parking becomes an element of the operating agreement. In conjunction with a long-term commitment by GSA and DOD to lease office space in these buildings at Skyline, we would entertain proposals for free or discounted parking rates for DOD employees in those buildings.

- Leased space can be very cost effective as compared to construction of new facilities on military bases or other Government-owned sites.

  - First, the Department assumed as an inflexible rule that leased space is a more costly method of housing personnel. The Department, however, did not engage in an individualized review of leased facilities, as it admitted in a response to an inquiry from Mr. Frank Cirillo:

    > "The HSA JCSG did not gather information via the BRAC certified data gathering processes regarding the costs of leased space in FY2004 dollars and lease termination dates..." [OSC BRAC Clearinghouse Memorandum dated 28 July 2005 in response to Frank Cirillo request, DCN 6240.]

  - Second, in the COBRA analyses being used for the Commission's review of the medical components, the Department compounded that error, or elected not to examine its assumption, when it elected not to at least gather proper leased space average costs. As a result, DoD grossly overestimated the cost of leased space when it ran its COBRA analyses of the cost/benefit of its proposed realignment/closure actions. DoD used an average lease cost of $31.14 per RSF, which was the rate COSTAR (which is a real estate trade publication which aggregates office statistics in metropolitan areas) reported as the Washington, DC, area average quoted rate for

Class A office space. Based on that $31.14 per RSF figure, DoD generated the $37.29 per GSF lease cost used in all of its analysis of Northern Virginia lease space recommendations. This is a faulty design, as:

- The Department should at least have used the COSTAR data for the relevant geographic submarket (which, it should be noted, is listed on the same page, in the same COSTAR publication). The figure for the I-395 submarket, which includes Skyline, is $24.98 per RSF, a full $6.16 per RSF less than DOD assumed.
- Second, the Department failed to consider actual lease costs paid by major government tenants. For example, large GSA leases awarded in mid-2004, the time period used by DoD for its lease cost assumptions, were at rates over $5 per RSF less than DOD assumed it would have to pay (See Attachment A).

o Third, the Department grossly underestimated the actual costs to replicate facilities on government property. Based on our experience building a brand new Class A building for the Defense Information Systems Agency in 2001, we estimate that the cost to build administrative space for DoD on a military base, adjusted for use of surface parking, Davis Bacon wages and construction variables on military bases, will be $210 per GSF, considerably higher than DoD's own estimates.

In an effort to provide the Commission with as accurate data as possible in its evaluation of the costs of co-locating the medical components at this time, we have provided to your staff what we believe is an accurate estimation of the costs to take advantage of the benefits, proximity, and current occupancy of the Skyline City campus and consolidate the remaining medical components alongside the TMA and Army Surgeon General (See Attachment B). You will note that the payback period, including costs to bring the facility in to AT/FP compliance drops from 5 years (per DoD's recommendation to consolidate just the DC-based medical commands to Bethesda) to 3 years to consolidate all medical components at Skyline; and offers the considerable benefit of locating all of the various medical components together on one campus. This is an advantage that DoD's recommendation does not offer.

Aside from both security and infrastructure cost concerns, we note the medical commands are some of the many agencies which benefits greatly from a close proximity to its primary customer, the Pentagon. The fact that Skyline is only four miles from the Pentagon and is linked by regular shuttle bus service results in operational benefits and cost savings. Surprisingly, no evidence seems to indicate that DoD considered the consolidation of the medical communities' various components to an area within close proximity to the Pentagon, including the Skyline complex.

We believe that if cost savings and operational efficiencies are primary drivers for the BRAC process, then consideration of a range of consolidation options is appropriate. We respectfully submit that the Skyline City complex could accommodate the entire medical community consolidation, and do so in a shorter timeframe and at a substantially lower cost than DoD's proposed relocation of only parts of the community.

Taken together, the consolidation of the various medical components to the Skyline campus is both more cost effective and timely. While we believe that the Commission should defer to DoD's decision not to move the TMA, Army Surgeon General and Air Force Surgeon General components out of Skyline. However, should the Commission elect to co-locate Virginia-based components with those now located in the District of Columbia, we would urge the Commission to direct that this co-location occur at the Skyline campus.

Sincerely,

Charles E. Smith Real Estate Services L.P.

By: ______________________

Gregory K. Redding
Vice President and Division Counsel
(703) 769-1840

Attachments

cc: Charles Battaglia
Tim Abrell
Ethan Saxon

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Attachment A

RECENT GOVERNMENT LEASE TRANSACTIONS ESTABLISH TRUE MEASURE OF MARKET RENTS			
	One Potomac Yard	Two Potomac Yard	2200 Crystal Drive
GSA Lease Number	GS-11B-01718	GS-11B-01719	GS-11B-01712
Date Lease Awarded by GSA	6-May-04	6-May-04	12-Apr-04
Tenant	Environmental Protection Agency	Environmental Protection Agency	Federal Supply Service
Rentable Square Feet	309,179	95,938	278,101
Term	10 years	10 years	10 years
Lease Commencement	May, 2006	May, 2006	January, 2006
Face Rent per RSF for Lease Term	**$32.08 per RSF**	**$32.74 per RSF**	**$28.77 per RSF**
Less Concessions That Inflate Face Rent and Not Required by DOD			
Value of Free Rent per year	$1.60 per RSF (6 months free)	$1.64 per RSF (6 months free)	$0.48 per RSF (2 months free)
Value of Improvement Allowance per Year	$3.60 per RSF ($11,138,737)	$3.68 per RSF ($3,526,650)	$3.37 per RSF ($9,383,500)
Value of Leasing Commission per Year Paid to GSA Broker per Year	$0.61 per RSF	$0.62 per RSF	$0.86 per RSF
Yields Average Base Rent:	**$26.27 per RSF**	**$26.80 per RSF**	**$24.06 per RSF**
Weighted Average Base Rate for Three Leases Above:			**$25.44 per RSF**
Plus Paint and Carpet allowance for renewal: ($5 over 10 years)			$0.50 per RSF
Total Weighted Average Base Rate for a DOD Renewal Based on Three Leases Above:			**$25.94 per RSF**
BRAC materials cite the number as:		(1)	**$31.14**
based on COSTAR "Quoted Rate" for DC metro area - "asking rate"			
Using this number led to a "Lease Cost Avoidance" cost of :		(1)	**$37.29**
"Lease Cost Avoidance" cost number should be:		(1)	**$31.03**

(1) The $31.14 per RSF in the COSTAR report converted to the $37.29 per GSF used in the COBRA models by applying the 10% RSF/GSF conversion factor and adding in the GSA, WHS and AT/FP fees cited in the COBRA models. The $25.94 per RSF derived above converts to $31.03 per GSF, which is $7.26 per GSF less than DOD used in the COBRA models.Certain COBRA runs prepared and submitted by Charles E. Smith use a $30.96 per GSF figure, only slightly different than the $31.03 per GSF figure cited above.

Executive Summary of Revised COBRA Analysis
HSA0115 Excursion Collocation 7% Cut Without DARPA (Scenario 1)

Case:	Run1.1 Case $210/SF as MilCon cost
Results:	6 year payback period (increased from 5 yr before)
Data Changes:	#1 - Input Screen 7 – change MilCon cost for 'General Admin Building' to $79,044,000 (376,400 GSF) #2 - Input Screen 7 – change MilCon cost for 'General Admin Building' to $7,460,000 (35,524 GSF)
Change Justification:	#1 – This change is due to using $210/GSF to calculate the MilCon cost for the building. That is: 376,400 * 210 = 79,044,000[1] #2 – This change is due to using $210/GSF to calculate the MilCon cost for the building. That is: (35,524 * 210) = 7,460,000

[1] Based on our experience building brand new Class A building for DISA in 2001, we estimate that the cost to build administrative space for DoD on a military base, adjusted for surface parking, Davis Bacon wages and construction variables on military bases, will be $210 per GSF.

Executive Summary of Revised COBRA Analysis
HSA0115 Excursion Collocation 7% Cut Without DARPA (Scenario 1)

Case:	**Run1.2 Consolidate to Skyline Campus**
Results:	3 year payback period (reduced from 5 yr before)
Data Changes:	#1 - Input Screen 3 – Change realignment from POTOMAC ANNEX to NNMC of (off/enl/civ) 155/46/165 to realignment from POTOMAC ANNEX to Skyline Campus #2 - Input Screen 3 – Change realignment from Bolling AFB to NNMC of (off/enl/civ) 110/28/31 to realignment from Bolling AFB to Skyline Campus #3 – Input Screen 1 – Take out NNMC from scenario #4 – Input Screen 5 – Change one time unique cost (AT/FP cost) from 0 to $10,298,000 for 2010. #5 – Input Screen 5 – Change misc. recurring cost for 2010 and 2011 from 0 to $12,753,000
Change Justification:	#1 & #2 – All personnel movement is redirected to Skyline #3 – Take out all cost and savings associated with NNMC at Bethesda #4 – One time unique cost (AT/FP cost) is calculated as (376,400 + 35,524) * $25/SF = 10,298,100. (376,400 & 35,524 are the GSF of two proposed new buildings at NNMC) #5 – This is the lease cost calculated at $30.96/SF. (376,400 + 35,524) * $30.96/SF = 12,753,167

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August 12, 2005

The Honorable Anthony J. Principi
Chairman, Defense Base Closure and Realignment Commission
2521 S. Clark St., Ste. 600
Arlington, VA 22202

Re: Consolidation of Defense Information Systems Agency

Dear Chairman Principi:

Please accept this letter as formal community input on the proposed consolidation and relocation of the Defense Information Systems Agency (DISA). DISA is currently located in several leased facilities in the Northern Virginia area, primarily the Skyline City complex along the I-395 corridor. The Department of Defense has proposed vacating these facilities and building a new facility to house the consolidated agency at Fort Meade, MD.

DoD began its analysis of DISA and all other Department components in leased space with the fundamental predetermined goal of vacating leased space. As a result, the military value analysis of leased space was designed by the Department to achieve that preconceived outcome. For example, while DoD-owned installations in Northern Virginia (Arlington, Fairfax County, and Alexandria) received high scores for proximity to educational resources and transportation infrastructure, leased installations in those same communities received scores of zero on these same criteria, despite the same proximity, simply because the installation was in leased space. The Department designed the military value scoring to reach the objective of vacating leased space, rather than evaluating, on an equal footing as the law requires, the military value of DoD installations irregardless of whether that installation was in leased space or on a military base.

Having dismissed the military value of leased space as a class, the Department sought to further justify its recommendation for DISA based on the desire to:

a) ensure that agency personnel are housed in a building that complies with the new antiterrorism/force protection (AT/FP) standards;
b) achieve costs savings; and,
c) consolidate the various DISA offices into one site.

We would like to comment on each of these DoD rationales and respectfully request the Commission give careful scrutiny and consideration to each of these issues. We would also like to point out that the Department cited no mission based reason that DISA should be located at Ft. Meade rather than at a consolidated site in Northern Virginia.

The first two rationales, and in turn the overall DoD imperative to vacate leased space, are based on two false assumptions, namely 1) that currently-leased space cannot be made compliant with DoD's force protection standards and 2) that leased space is not cost effective. In fact:

- Many current DoD leased space facilities can be made compliant with the Department's new AT/FP standards, and a number of buildings are either currently compliant or could become so with relatively minimal cost and disruption.

  - The largest leased location for DISA personnel, Seven Skyline Place, located at 5275 Leesburg Pike, is just such an example. This building can be brought into full compliance with DoD's force protection standards in just 18-24 months, much sooner than DoD's own proposal which would not relocate DISA personnel to AT/FP-compliant space until 2011. Moreover, Seven Skyline Place can be made AT/FP compliant at a cost of approximately $16 million. The cost to replicate that building at Ft. Meade will be almost $120 million, seven and one-half times the cost of upgrading the existing building to DoD force protection standards.

  - A campus for DOD at Skyline could be created with DISA and the TRICARE Management Activity and the U.S. Army Surgeon General as its anchors. That campus, consisting of the DISA facility at Seven Skyline Place, and four other buildings (Four, Five and Six Skyline Place and One Skyline Tower) could over time, provide the Federal Government with 1.8 million rentable square feet that would be AT/FP compliant for a cost of approximately $25.00/GSF (less than $50M for the entire complex), notably lower than the DoD's own average cost to achieve compliance of $28.28/GSF.

  - The parking garages for Skyline Buildings Four, Five, Six and the Tower would become secured facilities to meet the DOD force protection standards (the parking garage for Seven Skyline Place (housing DISA) is already a secured parking garage under DOD control). In doing so, employees of these DOD organizations could be provided with parking in designated areas within the secured garage facility, on terms that would be worked out with DOD and GSA. While generally GSA will not pay for employee parking as a component of rent, both GSA and DOD have entered into operating agreements with lessors to secure control of parking garages and the cost to employees for parking becomes an element of the operating agreement. In conjunction with a long-term commitment by GSA and DOD to lease office space in these buildings at Skyline, we would entertain proposals for free or discounted parking rates for DOD employees in those buildings.

  - The mere fact that office buildings are built behind a fence line on a military base does not, by definition, mean that such buildings are AT/FP compliant. For example, a large number of administrative buildings, barracks and family housing are inside the fence at Ft Meyer, but only a few feet from Route 50. DoD made no individualized analysis of the cost of AT/FP compliance for new facilities to be built on bases – depending on their site, DoD may well face the same $28.28/GSF cost for a base facility as it might for leased space. However, DoD assumed no military base facility would incur the cost of any AT/FP compliance, while assuming that all current leased space could not comply and all new leased space would require costly upgrades. Both assumptions are blatantly false.

- Leased space can be very cost effective as compared to construction of new facilities on military bases or other Government-owned sites.

  - First, the Department assumed as an inflexible rule that leased space is a more costly method of housing personnel. The Department, however, did not engage in an individualized review of leased facilities, as it admitted in a response to an inquiry from Mr. Frank Cirillo:

    "The HSA JCSG did not gather information via the BRAC certified data gathering processes regarding the costs of leased space in FY2004 dollars and lease termination dates..." [OSC BRAC Clearinghouse Memorandum dated 28 July 2005 in response to Frank Cirillo request, DCN 6240.]

  - Second, the Department compounded that error, or elected not to examine its assumption, when it elected not to at least gather proper leased space average costs. As a result, DoD grossly overestimated the cost of leased space when it ran its COBRA analyses of the cost/benefit of its proposed realignment/closure actions. DoD used an average lease cost of \$31.14 per RSF, which was the rate COSTAR (which is a real estate trade publication which aggregates office statistics in metropolitan areas) reported as the Washington, DC, area average quoted rate for Class A office space. Based on that \$31.14 per RSF figure, DoD generated the \$37.29 per GSF lease cost used in all of its analysis of Northern Virginia lease space recommendations. This is a faulty design, as:
    - The Department should at least have used the COSTAR data for the relevant geographic submarket (which, it should be noted, is listed on the same page, in the same COSTAR publication). The figure for the I-395 submarket, which includes Skyline, is \$24.98 per RSF, a full \$6.16 per RSF less than DOD assumed.
    - Second, the Department failed to consider actual lease costs paid by major government tenants. For example, large GSA leases awarded in mid-2004, the time period used by DoD for its lease cost assumptions, were at rates at least \$5 per RSF less than DOD assumed it would have to pay. (See Attachment A)

  - Additionally, the Department grossly underestimated the actual costs to replicate facilities on government property. The cost to build 840,000 GSF of administrative space at Ft. Meade will be \$60 million more than DoD assumed. Our individualized estimate, based on our actual experience and the actual construction drawings we used when this company built Seven Skyline Place for DISA in 2001, is far more accurate than the generalized, non-specific MilCon figure used by DoD in its COBRA runs for DISA.

  - Finally, to justify the economies of the proposed DISA move to Fort Meade, the Department included in its COBRA run cost savings that are not related to the proposed move of DISA to Ft. Meade, and underestimated the personnel costs associated with relocating to a site that is well beyond the reasonable commuting distance for many DISA employees, most of whom live in Virginia south of the current DISA locations.

In an effort to provide the Commission with as accurate data as possible, as the owners and builders of the facilities in question, we have provided to your staff what we believe is a far more accurate estimation of the costs to replicate the DISA facilities at Fort Meade (See Attachment B). When this new data is applied to the COBRA model, the payback period for the recommended move to Ft. Meade rises considerably beyond the 20-year standard benchmark and approaches a 40 year payback (See Attachment C).

Aside from both security and infrastructure cost concerns, we note DISA is one of the many agencies which benefits greatly from a close proximity to its primary customer, the Pentagon. The fact that DISA is only four miles from the Pentagon and is linked by regular shuttle bus service results in operational benefits and cost savings. Surprisingly, no evidence seems to indicate that DoD considered the consolidation of DISA's various opponents to an area within close proximity to the Pentagon, including the Skyline complex.

We believe that if consolidation of DISA is the primary driver for this recommendation, then consideration of a range of consolidation options is appropriate. We respectfully submit that the Skyline complex could accommodate DISA consolidation in a shorter timeframe and at a substantially lower cost than DoD's proposed relocation.

One vital fact for Commission consideration is that consolidation at Skyline would enable DoD to retain the advantages of the current DISA location. Seven Skyline Place (the primary building housing DISA and its research and development elements) is a new building, built specifically to Department of Defense specifications for DISA and opened in late 2001. **The military value of this building cannot be more strongly stated, as the building was designed, constructed and outfitted to the exact specifications of the Department.** Among many special design elements incorporated into the construction is a 52,000 square foot complex of underground and windowless facilities for secure research and development activity.

Taken together, the consolidation of the various DISA components to the Skyline campus is both a more cost effective and timely solution. We respectfully request that, should the Commission sustain the consolidation of the Defense Information Systems Agency, the final recommendation directs this consolidation to occur at the Skyline campus.

Finally, we would like to inform the Commission that the entirety of DISA would not fill the Skyline campus. The expenditure of less than $50M would bring the entire 1.8 million rentable square feet throughout the five buildings into AT/FP compliance and would also provide the Commission the opportunity to consolidate other agencies to the Skyline campus, such as the various medical commands, much of which (278,000 RSF) is also currently located at the Skyline complex, and which also benefit from close proximity to the Pentagon. The Commission should further understand that these costs for security compliance could be addressed to the benefit of DoD as part of a long-term leasing commitment from the Department to remain at the Skyline campus, thereby avoiding even the upfront costs for the improvements.

Sincerely,

Charles E. Smith Real Estate Services L.P.

By: Gregory R. Redding

Gregory R. Redding
Vice President and Division Counsel
(703) 769-1840

Attachments

cc: Charles Battaglia
Tim Abrell
Ethan Saxon

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Attachment A

RECENT GOVERNMENT LEASE TRANSACTIONS ESTABLISH TRUE MEASURE OF MARKET RENTS

	One Potomac Yard	Two Potomac Yard	2200 Crystal Drive
GSA Lease Number	GS-11B-01718	GS-11B-01719	GS-11B-01712
Date Lease Awarded by GSA	6-May-04	6-May-04	12-Apr-04
Tenant	Environmental Protection Agency	Environmental Protection Agency	Federal Supply Service
Rentable Square Feet	309,179	95,938	278,101
Term	10 years	10 years	10 years
Lease Commencement	May, 2006	May, 2006	January, 2006
Face Rent per RSF for Lease Term	**$32.08 per RSF**	**$32.74 per RSF**	**$28.77 per RSF**
Less Concessions That Inflate Face Rent and Not Required by DOD			
Value of Free Rent per year	$1.60 per RSF (6 months free)	$1.64 per RSF (6 months free)	$0.48 per RSF (2 months free)
Value of Improvement Allowance per Year	$3.60 per RSF ($11,138,737)	$3.68 per RSF ($3,526,650)	$3.37 per RSF ($9,383,500)
Value of Leasing Commission per Year Paid to GSA Broker per Year	$0.61 per RSF	$0.62 per RSF	$0.86 per RSF
Yields Average Base Rent:	**$26.27 per RSF**	**$26.80 per RSF**	**$24.06 per RSF**

Weighted Average Base Rate for Three Leases Above:		**$25.44 per RSF**
Plus Paint and Carpet allowance for renewal: ($5 over 10 years)		$0.50 per RSF
Total Weighted Average Base Rate for a DOD Renewal Based on Three Leases Above:		**$25.94 per RSF**
BRAC materials cite the number as:	(1)	**$31.14**
based on COSTAR "Quoted Rate" for DC metro area - "asking rate"		
Using this number led to a "Lease Cost Avoidance" cost of :	(1)	**$37.29**
"Lease Cost Avoidance" cost number should be:	**(1)**	**$31.03**

(1) The $31.14 per RSF in the COSTAR report converted to the $37.29 per GSF used in the COBRA models by applying the 10% RSF/GSF conversion factor and adding in the GSA, WHS and AT/FP fees cited in the COBRA models. The $25.94 per RSF derived above converts to $31.03 per GSF, which is $7.26 per GSF less than DOD used in the COBRA models.Certain COBRA runs prepared and submitted by Charles E. Smith use a $30.96 per GSF figure, only slightly different than the $31.03 per GSF figure cited above.

Attachment B

Cost Estimate to Replicate DISA Square Footage at Fort Meade, MD in FY2005 Dollars					
Description				**Cost**	**Notes**
Base Building Construction Costs				$63,930,000	James G. Davis Construction Estimate of 6/30/05 rounded to nearest $1,000, Assumes 2005 dollars
Add for working on a military base				$3,197,000	Per Davis Estimate
Add for Davis Bacon wage rates				$6,393,000	Per Davis Estimate
Tenant Improvement Construction Costs				$24,729,000	James G. Davis Construction Estimate of 7/01/05 rounded to nearest $1,000, Assumes 2005 dollars
Add for working on a military base				$1,731,000	Per Davis Estimate
Add for Davis Bacon wage rates				$2,967,000	Per Davis Estimate
Subtotal				**$102,947,000**	
Other Construction Cost Modifications					
Delete Structured Parking	309	Spaces	$25,000	($7,725,000)	Assumes 309 of the 582 provided at Seven Skyline are deleted
Add Surface Parking	1,060	Spaces	$4,500	$4,770,000	Assumes a surface parking ratio of 3.0 per 1,000 GSF (typical Suburban parking ratio for this type of building)
Total Construction Costs for Seven Skyline Place				$99,992,000	
Seven Skyline Place Breakout	GSF				
Data Center Component	57,200	$500.00		$28,600,000	
Administrative Component	387,200	$184.00		$71,392,000	
Replication at Fort Meade	GSF				
Data Center Component	57,200	$500.00		$28,600,000	
Soft Costs		12%		$3,432,000	
Contingency		7%		$2,242,000	
Subtotal Data Center Component				**$34,274,000**	
Administrative Component	840,000	$184.00		$154,560,000	
Soft Costs		12%		$18,547,000	
Contingency		7%		$12,117,000	
Subtotal Administrative Component				**$183,160,000**	
Total Replication Costs at Fort Meade				**$217,434,000**	
COBRA Report Comparison					
Milcon Spending					
General Administrative Building				$144,931,000	
RDT&E Building				$12,497,000	
Total Milcon to replicate DISA at Fort Meade				**$157,428,000**	
Adminstrative Building Underfunded Amount				**($38,229,000)**	
% Underfunded				**26.4%**	
RDT&E Building Underfunded Amount				**($21,777,000)**	
% Underfunded				**174.3%**	
Total Underfunded Amount				**($60,006,000)**	
Total % Underfunded				**38.1%**	

Attachment C

Executive Summary

An independent analysis of the COBRA Model run used by the Department of Defense to support the BRAC recommendation to consolidate DISA at Ft. Meade was made. The data used by the DOD BRAC analysts was downloaded from the www.brac.gov library and run to replicate the results obtained by DOD and now being reviewed by the Commission. The DOD COBRA run shows a payback period of just two years; our independent analysis shows that the payback period will be well over 20 years, and could be as much as 47 years, once accurate cost and savings data is used.

Cost Effectiveness of Proposed Move to Ft. Meade

Our analysis of DOD's COBRA model run raises the following issues:

- The DOD COBRA model includes costs and savings that are not related to the move to Ft. Meade; it is questionable whether these should be part of the economic justification for the move.
- The DOD COBRA model includes projected future lease costs for Northern Virginia that is based on an average "quoted" rental rate for Class A office space for the entire Washington D.C. metro area; the actual data for the Skyline submarket in Northern Virginia where DISA's leased space is currently located is available in the same source document used by DOD to obtain the DC metro area average and the submarket average should be used.
- The DOD COBRA model includes costs to construct needed new facilities at Ft. Meade which appear to be seriously understated; a more accurate estimate from the developer and construction firm that built the primary leased facility occupied by DISA (in the Skyline complex) would add $60 million to the cost used by DOD and support for that finding is provided.
- The DOD COBRA model run does not include costs associated with the recruiting and training of the people who will replace the civilians who do not move; there are numerous studies that address this issue and provide historical costs for this overlooked aspect of the move.

Based on this assessment our analysts made five additional COBRA runs. Our objective is to provide the actual payback period when all the costs and only **actual** savings are used. Our independent analysis addresses the cost and savings associated with the proposed move to Ft. Meade. It did not include cost avoidance for what would occur if there was no move. The results of these five analysis show that the payback period for a relocation to Ft. Meade grows dramatically, and ultimately well past 20 years, when accurate date for actual costs and savings is introduced into the COBRA runs.

The original DOD BRAC base case, and the five runs we made, all numbered below, address the issues in the sequence presented above with the following results:

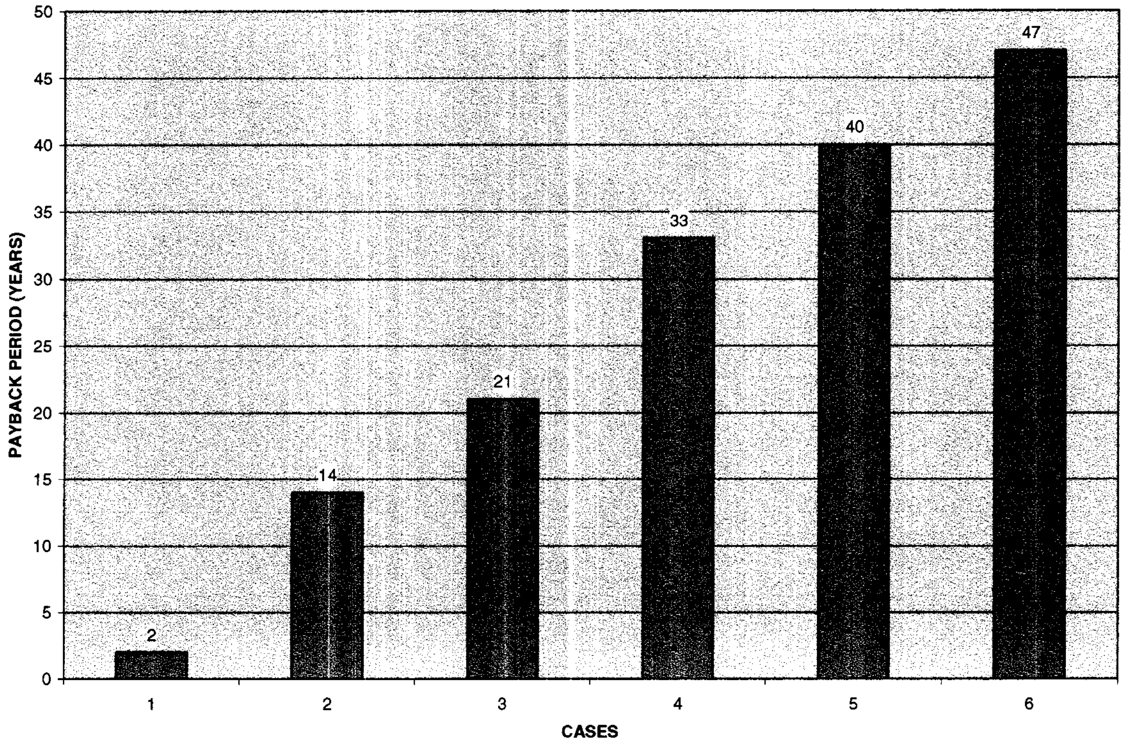
1) DOD's base case shows payback period of 2 years.

2) Removing the cost and savings associated with contractor reductions, position cuts and cost avoidance that are not related to the move resulted in an adjusted payback period of 14 years.
3) Using the previous run 2) and then adjusting for the actual lease costs for the Skyline submarket in Northern Virginia resulted in an adjusted payback period of 21 years.
4) Using the previous run 3) and then adding the aforementioned $60,000,000 to the Military Construction costs at Ft. Meade resulted in an adjusted payback of 33 years.
5) Using the previous run 4) and then adding in recruiting and training costs for the number of people the BRAC data indicated will not move resulted in an adjusted payback period of 40 years.
6) Finally, using the previous run 5) and then adjusting for a more realistic and higher number of people who will not move with DISA to Ft. Meade (but still less than half what has occurred historically), resulted in an adjusted payback period of 47 years.

The chart on the next page summarizes the results of these five new runs.

SUMMARY OF RESULTS

PAYBACK PERIOD FOR MOVE TO FT. MEADE GROWS TO 47 YEARS AS ACCURATE COST AND SAVINGS DATA IS ADDED TO COBRA MODEL IN SEQUENTIAL RUNS



1. **BRAC base case resulting from DOD's COBRA run.**
2. **Remove savings and costs not associated with move.**
3. **Use appropriate lease costs for current locations.**
4. **Use more realistic Military Construction costs (+$60M).**
5. **Add in recruiting and training cost for civilians not moving (BRAC SFF of 15.77%).**
6. **Increase recruiting and training cost for civilians not moving to 30%.**

Case:	**Run1_V2** BRAC Base Case
Results:	2 year payback period
Data Changes:	na
Change Justification:	na

Case:	**Run1.1_V2.1** BRAC Base Case with costs and savings not related to the move taken out
Results:	14 year payback period
Data Changes:	#1 - Input Screen 5 – Slidell, LA – Misc. Recurring Savings $11,141,000 changed to $0 for years 2007 through 2011 #2 - Input Screen 5 – Roslyn/Ballston - Misc. Recurring Savings $36,886,000 changed to $23,866,000 for year 2011 #3 - Input Screen 5 – Roslyn/Ballston – One Time Unique Savings $235,000 changed to $0 for year 2010 and $17,879,580 changed to $0 for year 2011 #4 - Input Screen 5 – Alexandria – One Time Unique Savings $614,300 changed to $0 for year 2011 #5 – Input Screen 6 – Slidell, LA – 2010 Position Eliminations (1 Officer and 102 Civilians) set to 0 #6 – Input Screen 6 – NAVSUPPACT – 2010 Position Eliminations (1 Officer and 1 Civilians) set to 0 #7 – Input Screen 6 – Roslyn/Ballston – 2011 Position Eliminations (26 Officer, 10 Enlisted and 67 Civilians) set to 0
Change Justification:	#1 – 48 contractors at $200,000 per year will be released regardless of whether or not DISA is consolidated at Ft. Meade; therefore this savings ($9,600,000) is not related to the move. Lease savings ($1,641,000/year) will occur regardless of the move to Ft. Meade #2 – 65 contractors at $200,000 per year will be released regardless of whether or not DISA is consolidated at Ft. Meade; therefore this savings ($13,000,000) is not related to the move. #3 & #4 – Our analysis is addressing the actual cost of the move to Ft. Meade, not the "net" cost for the move versus staying where they are. Therefore, cost avoidance at the current facilities should they stay is not part of the analysis. Options presented in Phase II of our analysis include these One Time Unique costs for staying in some of the current facilities, so a direct comparison will be proper. #5, #6 & #7 – Position eliminations will occur whether they stay in the current facilities or move to Ft. Meade; therefore the savings from these eliminations do not impact the economic considerations with respect to the move.

Case:	**Run1.2_V2.2** Run1.1_V2.1 with appropriate lease costs for current facilities
Results:	21 year payback period
Data Changes:	#1 – Input Screen 5 – Roslyn/Ballston - Misc. Recurring Savings $23,886,000 changed to $19,266,000. #2 – Input Screen 5 – Alexandria - Misc. Recurring Savings $810,100 changed to $558,000.
Change Justification:	#1 & #2 – CoStar has the costs for leases in the specific area in which the current facilities are located; these lease costs are more appropriate. The cost per GSF with all the additional charges is $30.96, vice the BRAC estimate of $37.29..

Case:	**Run1.3_V2.3** Run1.2_V2.2 with a more appropriate estimate of Military Construction at Ft. Meade
Results:	33 year payback period
Data Changes:	#1 – Input Screen 7 – Ft. Meade - Misc. Default Total Cost for Facility 6100 (General Administration Building) set to $194,931,000, a $50,000,000 increase. ##1 – Input Screen 7 – Ft. Meade - Misc. Default Total Cost for Facility 3101 (General RDT&E Laboratory) set to $22,497,000, a $10,000,000 increase.
Change Justification:	#1 & #2 – Estimates from the construction company that built one of the current facilities leased by DISA knows the DISA requirements quite well and was able to make an accurate estimate for the 892,000 GSF that is needed at Ft. Meade. The additional $60,000,000 was arbitrarily distributed between the two facilities

Case:	**Run1.4_V2.4** Run1.3_V2.3 with the addition of recruiting and training costs for the replacements for the 15.77% of civilians the COBRA Standard Factor File (SFF) assumes will not move (8.1% early retirements, 1.67% regular retirements, and 6% refusing to move)
Results:	40 year payback period
Data Changes:	#1 – Input Screen 5 – Ft. Meade – One Time Unique Cost for 2010 and 2011 of $16,244,600
Change Justification:	#1 The total number of positions moving to Ft. Meade are 2081. There is a significant body of literature that shows that the cost to recruit and train replacements can be as high as 200% of their annual salary. The SFF, with the location cost factor, shows the average civilian salary to be $66,000. The following is the calculation for the total cost, which is evenly divided between 2010 and 2011: 2081 x .1577 x ($66,000 x 1.5) = $32,489,200 Note: the conservative estimate of 150% was used to ensure this cost is not overstated

There are extensive studies available in the body of pertinent literature that analyze and describe recruitment, training, and lost productivity costs when an employee must be hired to backfill the "leaver," i.e., the employee who must be replaced. For example:

- "Private Sector Downsizing: Implications for DoD" by Michael L. Marshall and J. Eric Hazell (published in The Acquisition Review Quarterly, Spring 2000) listed several parameters that apply to replacing personnel, including advertising and marketing; recruitment, hiring, and training; overtime to personnel taking up the slack; productivity losses; and lost training for departed workers. The article concludes, "Regardless of the exact number of businesses, there is widespread agreement that ***turnover costs are somewhere between high and Olympian.***"

- "The Business Cost and Impact of Employee Turnover" by William Bliss of Bliss & Associates (2000) concludes that the cost of employee turnover is at least 150% of the leaver's annual salary. Also the "The Cost of Teacher Turnover" (Google

- A Price Water-House Saratoga Institute workforce replacement model cited in "It's Costly to Lose Good Employees" by J. Fitz-enz (1997) estimates that the total cost of turnover ranges from 100 to 200% of the leaver's pay and benefits.

- A workforce replacement study conducted by Kwasha Lipton (referenced in The Acquisition Review Quarterly Spring 2000) concludes that replacing exempt workers costs 150% of the leaver's salary, and for non-exempt workers, it costs 175% of the leaver's salary.

Case:	**Run1.5_V2.5** Run1.3_V2.3 with the addition of recruiting and training costs for the replacements for an estimated 30% of the civilians who will not move (9% early retirements, 9% regular retirements, and 12% refusing to move)
Results:	47 year payback period
Data Changes:	#1 – Input Screen 5 – Ft. Meade – One Time Unique Cost for 2010 and 2011 of $30,902,850
Change Justification:	#1 The same calculation is used to estimate the total cost. The COBRA SFF data appears to be very low. Historically the percentage of civilians not moving in situations similar to had been as high as 70%. In addition, a survey recently done at Ft. Monmouth to determine how many of their civilians would move to Aberdeen, MD showed that 70% would not move. Therefore, the 30% estimate is, most likely, very conservative. The fact that many DISA civilians live in Northern Virginia, not far from Ft. Belvoir where there will be many new civil service positions, makes if very unlikely that many people will accept the move or long commute.

SMITH

CHARLES E. SMITH COMMERCIAL REALTY

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August 12, 2005

The Honorable Anthony J. Principi
Chairman, Defense Base Closure and Realignment Commission
2521 S. Clark St., Ste. 600
Arlington, VA 22202

Re: Miscellaneous OSD, Defense Agency, and Field Activity Leased Locations

Dear Chairman Principi:

During a recent meeting with Mr. Tim Abrell and Mr. Ethan Saxon of your staff, we addressed the recommendations of the Headquarters and Support Activities Joint Cross-Service Group. These recommendations would relocate a vast array of disparate DoD organizations, including Army, Air Force, and other organizations of the OSD and WHS to new permanent facilities at Ft. Belvoir, Virginia. This recommendation package is an assemblage of completely unrelated DoD components with no mission reason for co-location at Ft. Belvoir (and none was even put forth by DoD). This package of recommendations appears to have been designed to mask the construction of new 'Excess Capacity' for DoD and obscure the lack of a cost justification for any of the other recommended moves.

At our meeting with your staff we brought up a number of issues, including the lack of a military mission rationale stated by the JCSG for these moves, the erroneous assumptions made regarding the inability of leased space to meet security standards, the gross-overestimation of leased space costs, and the gross underestimation of the cost of building new facilities on bases. We have raised these issues in other letters to you today and will address those issues only briefly at the end of this letter.

The most glaring issue identified in this set of recommendations, and raised in our meeting, is the seemingly ironic recommendation by the Department of Defense to build new permanent facilities at Fort Belvoir to house personnel currently located in temporary leased space identified by the HSA JCSG as the "Pentagon Renovation temporary space". As stated in the COBRA model relied upon by the HAS JCSG for this recommendation, the purpose of this leased space is to "house personnel who are displaced by the renovation work in the Pentagon; the numbers of personnel and the Activities to which they belong change depending on what work is being undertaken in the Pentagon." The HSA JCSG assumptions further state "The number of personnel resident in the Pentagon Renovation space was estimated by the HSA JCSG because the actual numbers are variable due to the nature of this space."

The import of the Department of Defense's recommendation is that it is seeking to build new, permanent facilities to meet an office space need which is, by definition, only temporary. In addition, the logic of relocating personnel who are essentially assigned to the Pentagon to a new location nearly 20 miles away is difficult to grasp.

When we discussed this issue with Mr. Abrell and Mr. Saxon, they indicated that the Department of Defense made it clear to them that the Pentagon Temporary space, or PENREN, was not included in the BRAC recommendation packages. Upon further review, however, this assertion about PENREN is not accurate, as made clear in the quoted language from the COBRA assumptions noted above.

We would also ask you to review the Headquarters and Support Activities JSCG recommendation entitled "Collocate Miscellaneous ODS, Defense Agency, and Field Activity Leased Locations." Two elements of this recommendation package specifically pertain to Pentagon renovation temporary space; i.e., the fourth and eighth elements of the recommendation:

> "Close 1500 Wilson Boulevard and Presidential Towers, leased locations in Arlington, VA, by relocating offices accommodating Pentagon Renovation temporary space to Fort Belvoir, VA."
>
> "Realign Rosslyn Plaza North, a leased installation in Arlington, VA, by relocating offices accommodating Pentagon Renovations temporary space, Washington Headquarters Services and the Defense Human Resources Activity to Fort Belvoir, VA."

It is counter intuitive to use limited financial resources to build new facilities for a use which is only temporary. We believe that BRAC is not intended to fund the construction of future 'Excess Capacity'.

Including these three leased facilities into that recommendation package could have been intended by DOD to enhance the cost and savings analysis in support of the other recommendations in that same package. In an effort to explore this latter hypothesis, we commissioned an additional series of COBRA analyses which isolated and removed the Pentagon Renovation space elements of the recommendation. Our experts then reevaluated the payback period for the remainder of the recommendation package.

The results demonstrate that removal of the Pentagon Renovation space, with no other changes to DoD's data, results in an increase in the payback period from 9 years to 25 years (using DoD's own COBRA model). This change resulted from only removing the Pentagon Renovation space from the recommendation, and does not represent any further challenges to DoD's inputs or algorithm (See Attachment A).

This result clearly undermines the cost effectiveness argument for the entire package of Miscellaneous OSD, Defense Agency, and Field Activity Leased Locations recommendations. If the Pentagon Renovation leased spaces are pulled from the recommendations then the balance of the recommendations cannot stand on their own.

We know from DoD's own admission in an OSD BRAC Clearinghouse Memorandum that "The HSA JCSG did not gather information via the BRAC certified data gathering processes regarding the costs of leased space in FY2004 dollars and lease termination dates..." (28 July 2005 response to Mr. Frank Cirillo, DCN 6240). Clearly additional elements of DoD's data are certainly subject to further analysis.

Our evaluation of numerous COBRA estimations that are based on DoD's use of $37.29/GSF for lease costs have found that this standard figure grossly overstates the actual costs of leased space. DoD used an estimate of $31.14 per RSF for leased costs from a real estate industry report on average 'quoted' rates for Class A office space in the Washington metro area that has no relevance to actual market rates. This is akin to using the manufacturer's recommended sticker price to measure the market price for a new car. If DoD had examined actual GSA leases awarded in Northern Virginia for large government agencies taking Class A space in mid-2004 (See Attachment B), it would have learned that the true market rate that DOD could expect to pay in current leased space is only $25.94 per RSF. That would undermine even further DoD's cost savings argument for moving these locations to Ft. Belvoir.

Finally, based on our experience building a brand new Class A building for DISA in 2001, we estimate that the cost to build administrative space for DoD on a military base, adjusted for surface parking, Davis Bacon wages and construction variables on military bases, will be $210 per GSF.

A more detailed evaluation of the COBRA analysis using this information would likely result in an even longer payback than the 25 years obtained just by taking out the Pentagon Renovation temporary space.

We urge the Commission to give careful scrutiny to the recommendation to build new permanent facilities to fulfill temporary needs. Flexibility is one of the characteristics of leased space, which cannot ever be matched by government owned facilities. Pentagon renovation space is a prime example of when such flexibility is in the best interests of the Department and the taxpayer.

We further urge the Commission to give careful scrutiny to the true cost effectiveness of the balance of the recommendations in this package, which we believe do not support relocation to Ft. Belvoir given the 25 year payback just by taking out the Pentagon Renovation temporary space.

We respectfully request that the Commission endorse current policy and DoD authority to locate agencies within leased space facilities when such an arrangement is best solution for the requirement.

Sincerely,

Charles E. Smith Real Estate Services L.P.

By: Gregory R. Redding

Gregory R. Redding
Vice President and Division Counsel
(703) 769-1840

Attachments

cc: Charles Battaglia
Tim Abrell
Ethan Saxon

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Executive Summary of Revised COBRA Analysis
HSA 0053R (OSD 4th EST to Belvoir & NNMC) Without Temporary Space at 1500 Wilson Blvd, Presidential Tower and Rosslyn North

Case:	**Run1.1 Case Without PENEN**
Results:	25 year payback period (increased from 9 yr before)
Data Changes:	#1 - Input Screen 5 – Change Alexandria / I-395 Area misc. recurring savings, one-time unique savings and one-time unique cost by 26.24% #1 - Input Screen 5 – Change Rosslyn – Ballston misc. recurring savings, one-time unique savings and one-time unique cost 60%
Change Justification:	#1 – The amount of reduction is proportional to the temporary space in the total GSF. Detail calculations are shown below. Overall, 26.24% reductions in savings & costs due to removed temporary space. #1 – The amount of reduction is proportional to the temporary space in the total GSF. Detail calculations are shown below. Overall, 60% reduction in savings & costs due to removed temporary space

Attachment B

RECENT GOVERNMENT LEASE TRANSACTIONS ESTABLISH TRUE MEASURE OF MARKET RENTS

	One Potomac Yard	Two Potomac Yard	2200 Crystal Drive
GSA Lease Number	GS-11B-01718	GS-11B-01719	GS-11B-01712
Date Lease Awarded by GSA	6-May-04	6-May-04	12-Apr-04
Tenant	Environmental Protection Agency	Environmental Protection Agency	Federal Supply Service
Rentable Square Feet	309,179	95,938	278,101
Term	10 years	10 years	10 years
Lease Commencement	May, 2006	May, 2006	January, 2006
Face Rent per RSF for Lease Term	**$32.08 per RSF**	**$32.74 per RSF**	**$28.77 per RSF**
Less Concessions That Inflate Face Rent and Not Required by DOD			
Value of Free Rent per year	$1.60 per RSF (6 months free)	$1.64 per RSF (6 months free)	$0.48 per RSF (2 months free)
Value of Improvement Allowance per Year	$3.60 per RSF ($11,138,737)	$3.68 per RSF ($3,526,650)	$3.37 per RSF ($9,383,500)
Value of Leasing Commission per Year Paid to GSA Broker per Year	$0.61 per RSF	$0.62 per RSF	$0.86 per RSF
Yields Average Base Rent:	**$26.27 per RSF**	**$26.80 per RSF**	**$24.06 per RSF**

Weighted Average Base Rate for Three Leases Above:		**$25.44 per RSF**
Plus Paint and Carpet allowance for renewal: ($5 over 10 years)		$0.50 per RSF
Total Weighted Average Base Rate for a DOD Renewal Based on Three Leases Above:		**$25.94 per RSF**
BRAC materials cite the number as:	(1)	**$31.14**
based on COSTAR "Quoted Rate" for DC metro area - "asking rate"		
Using this number led to a "Lease Cost Avoidance" cost of :	(1)	**$37.29**
"Lease Cost Avoidance" cost number should be:	(1)	**$31.03**

(1) The $31.14 per RSF in the COSTAR report converted to the $37.29 per GSF used in the COBRA models by applying the 10% RSF/GSF conversion factor and adding in the GSA, WHS and AT/FP fees cited in the COBRA models. The $25.94 per RSF derived above converts to $31.03 per GSF, which is $7.26 per GSF less than DOD used in the COBRA models.Certain COBRA runs prepared and submitted by Charles E. Smith use a $30.96 per GSF figure, only slightly different than the $31.03 per GSF figure cited above.