



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

Executive Correspondence
CN 4715

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUL 15 2005

Mr. Barry Holman
Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Holman,

This is the Department of Defense response to the Government Accountability Office (GAO) final report, GAO-05-785, "Analysis of DoD's 2005 Selection Process and Recommendations for Base Closures and Realignment," dated July 1, 2005.

The Department previously provided technical corrections and oral comments on the draft report during the week of June 20, 2005. The Department appreciates GAO's recognition that "DOD's decision-making process for developing its recommendations was generally logical, well documented, and reasoned." The report also notes that Department was "consistent in adhering to the use of military value criteria, including new considerations introduced for this round, such as surge and homeland defense." Additionally, the Department fully agrees with GAO's finding that audits by the DoD Inspector General and the individual Service Audit Agencies "concluded that the extensive amount of data used as a basis for BRAC decisions was sufficiently valid and accurate for the purposes intended."

The Department generally agrees with GAO's observations on the process, but disagrees with GAO's concerns regarding projected savings. While the report acknowledges that savings would be achieved and that projected savings are large, it expresses concern, however, that much of the savings result from military personnel reductions at BRAC sites. The report states "without recognition that these are not dollar savings that can be readily applied elsewhere, this could create a false sense of savings available for other purposes."

The issue regarding the treatment of military personnel savings represents a longstanding difference of opinion between DoD and GAO. The Department considers military personnel reductions as savings that are just as real as monetary savings. While the Department may not reduce overall end-strength, the reductions in military personnel for each recommendation at a specific location are real. As is the case of monetary savings, personnel reductions allow the Department to apply these military personnel to generate new capabilities and to improve operational efficiencies.



As the Department has indicated in its oral comments, it intends to develop a system for tracking and periodically updating its savings estimates for the BRAC 2005 round as recommended by GAO.

The Department's additional concerns are outlined in the enclosure.

The Department appreciates the work performed by the GAO in this regard and appreciates the opportunity to comment on the final report.

Sincerely,



Michael W. Wynne

(Chairman, Infrastructure Steering Group

Enclosure:
As stated

**Additional Issues
on
GAO Report GAO-05-785, “Analysis of DoD’s 2005 Selection Process and
Recommendations for Base Closures and Realignment”**

Department of Army

Issue: The GAO is concerned that uncertainties regarding the rebasing of Army Overseas Forces to the United States and force structure changes due to modularity may cause projected BRAC costs and savings to be incorrect (pg. 83).

Response: The GAO listed three specific areas of concern that contribute to their perceived uncertainties. All three are directly related to the Army’s force structure and manpower authorizations. While some uncertainties remain with respect to these areas, the Army’s BRAC Recommendations were based on decisions and the Twenty-year Force Structure Plan which are unlikely to change significantly. As stated in the Force Structure Plan, the authorized strength of the Army is expected to remain at 482,400 and includes 43 Brigade Combat Teams (BCTs) through 2011 and beyond. Temporary authorizations have allowed the Army to retain up to approximately 512,000 soldiers in support of the Global War on Terrorism (GWOT). BRAC analysis and the subsequent recommendations considered this temporary increase.

The Army took a holistic approach to the operational Army in its BRAC analysis and accounted for all 43 BCTs. In order to expand the operational Army by an additional 10 BCTs before the end of Fiscal Year 2006, the Army had to account for approximately 3,500 Soldier authorizations per BCT. As the GAO noted on page 84, “over half of the Army’s forces returning from overseas are expected to be folded into the new modular brigades being formed in the United States.” As the units overseas inactivate over the next few years, their authorizations will be applied to the approximately 35,000 Soldier authorizations required for the 10 additional BCTs. Their return is timed to support the Army force generation cycle in order to meet current and projected operational requirements. If operational requirements delay the inactivation of unit scheduled to return from overseas, this would require a continuation of the Army’s temporary over strength which would not impact the BRAC recommendations but could delay the closure of installations overseas.

Issue: The GAO is concerned that proposed BRAC actions may overstress already constrained training ranges (pg. 85).

Response: The Army’s BRAC analysis considered the increase in the number of BCTs and the BRAC recommendations reflect what the Army believes is the optimal solution.

For example, the Army's capacity analysis indicated that Fort Hood did not have the amount of training land to adequately meet the training requirements for six BCTs. Similarly, when the Education and Training Joint Cross Service Group proposed to move the Armor School and Center to Fort Benning, the capacity analysis indicated that Fort Benning could not adequately support the requirements of a second BCT that the Army had previously announced it would activate at Fort Benning in 2006 and the BRAC recommendation would activate it at Fort Knox instead. We also reviewed planned modernization efforts at each installation to determine additional training range requirements at installations included in the BRAC recommendations. This resulted in the inclusion of \$240 million for range construction and upgrades at Fort Bliss and \$40 million at Fort Carson.

Issue: GAO reported that most of the Army's reserve component recommendations are contingent upon certain actions that have either yet to take place or be decided (pg. 87).

Response: The participation by the States in the Army RC recommendations is voluntary. However, each State that participated in the development of these recommendations did so with the intent to implement them. Where possible, the Army obtained a certified document signed by a representative from the office of the State Adjutant General that supports implementation of these recommendations.

In land acquisition contingent recommendations, a cost to obtain suitable land was included in the analysis. Commercial property is readily available in those locations identified for the new Armed Forces Reserve Centers that require land acquisition.

Issue: Bundling of various recommendations reduces visibility of costs (pg. 87).

Response: Combining the various recommended actions at a specific installation into one recommendation improves the visibility of the overall cost and savings estimates at that particular installation. This also ensured that excess facilities are considered only once and that the revised requirements for community facilities and installation staff are more accurate. The Cost of Base Realignment and Closure Actions (COBRA) reports for each recommendation break down all costs and savings by location.

Issue: GAO indicated that storage capacity at McAlester Army Ammunition may be insufficient to handle Red River's munitions (pg. 89).

Response: The Industrial JCSG analysis determined that McAlester Army Ammunition Plant will have sufficient storage space for munitions that will be relocated from Red River Munitions. McAlester Army Ammunition Plant will demilitarize 16 percent of the munitions it is currently storing (102,603 short tons) and this will enable McAlester to store the roughly 77,000 short tons of munitions it will receive from Red River Munitions Center, Texas.

Issue: GAO indicated that the Army and the Navy did not include additional force protection costs in their analysis (pg. 44).

Response: The Army considered standoff distances when establishing the footprint of the new facilities. Additionally, with the exception of the majority of the RC recommendations, the new facilities are built on military installations that provide additional force protection. Therefore, force protection costs were indirectly included in the costs of the recommendations and were considered for all the recommendations.

Issue: The report implies that additional funding was not included for increased housing requirements at gaining installations (pg. 51).

Response: Additional housing costs were included in each of the Army's recommendations where the addition of new personnel exceeded the capacity at the installation based on the current on base housing percentage. For example, at Fort Bliss more than \$587 million was included as a one time cost for RCI housing investment.

Issue: GAO indicated that the Army moved lower value installations "up on the list" (pp 76-77).

Response: The military value of these installations did not change; the installations were forced into the portfolio based on unique capabilities or upon direction of the SRG which caused some installations to move out of the portfolio. The portfolio was the minimum number of installations required to meet the Army's requirements and provided the starting point for analysis. The report also comments that the Army did not establish a 1 to N list for the RC installations. As discussed earlier, this was due to the unique nature of the mission and organization of the RC; establishing a 1 to N list would have no meaning or practical application.

Department of Navy

Issue: GAO states "the recommendations to close Submarine Base New London, Connecticut, and Portsmouth Naval Shipyard, Maine...are based on projected decreases in the number of submarines in the future force structure" (pg. 104).

Response: This statement is not factually correct for Submarine Base New London, and is repeated in substance in the second sentence of the second paragraph in this section ("...the projected 21 percent reduction in the submarine force led the Navy to analyze various proposals to close submarine bases"). The analysis leading to the recommendation to close Submarine Base New London was based on a calculation of aggregate excess capacity for the entire surface/subsurface function derived from the original Force Structure Plan, without regard to type of platform. As the Chief of Naval Operations indicated in his testimony on May 17, 2005, the subsequent reduction of submarine force structure in the revised Force Structure Plan served to confirm the

viability of this recommendation. However, submarine bases were not analyzed as a separate subset of installations, and the details of Force Structure Plan decreases were not used to develop scenarios for analysis. To the extent the decommissioning of ships was reflected in the Force Structure Plan, this was accounted for in scenario analysis, as in the case of Naval Station Ingleside (decommissioning of mine warfare ships). That was not the case for Submarine Base New London: all reported submarines homeported at Submarine Base New London were relocated in the scenario analysis.

Issue: Regarding the Submarine School at Submarine Base New London, GAO states “The BRAC Commission may want to assure itself that the Navy has developed a transition plan to satisfy the training and certification requirements until the receiving sites are able to perform this training, without unduly interrupting the training pipeline” (pg. 105).

Response: We have already responded to a question from the Commission on this topic and look forward to continuing the discussion.

Issue: Regarding Portsmouth Naval Shipyard, GAO states “The Commission may wish to consider the views of the shipyard employees and the results of the Navy's review in their analysis of this recommendation” (pg. 108).

Response: We have already responded to a question from the Commission on this topic and look forward to continuing the discussion.

Department of Air Force

Issue: GAO states, “Although this [capacity] analysis indicated the ability of bases to bed down additional aircraft, according to Air Force officials, it did not provide a specific excess capacity percentage by installation or major command. Accordingly, an overall capacity analysis report was not made available to us, comparable to that provided by the other military departments” (pg. 114).

Response: The capacity of Air Force installations varied depending on the mission design series (MDS) (type of aircraft) assigned. Variables, such as buildable acres, runway, taxiway and ramp dimensions, hangar size and fuel system type and capacity, affect the capacity of a base to house a particular MDS. The Air Force capacity analysis considered these variables and focused on identifying the potential to add force structure of similar MDS to each installation. The intent of the analysis effort was to provide an estimate of total maximum theoretical capacity at each location and across the Air Force by MDS. Assessments were provided by Air Force Major Commands using certified data provided in Data Call #1 and approved weapons systems templates used in initial Major Command capacity briefings (April 2004). The assessments identified each installation's potential to add units of similar force structure considering existing conditions, facilities, additional construction requirements, and operational and

environmental constraints. This information was available and the process used suited Air Force analysis needs exceptionally well.

Education and Training Joint Cross-Service Group

Issue: GAO states, “The group did not analyze the extent to which its proposed recommendations would reduce excess capacity across all education and training functions. Nonetheless, the Air Force estimated that the recommendation to consolidate undergraduate pilot training would reduce excess capacity by 2 percent. At the same time, the excess capacity identified will remain in undergraduate rotary wing training because the Navy could not agree on a scenario to consolidate training (pg. 135).”

Response: The E&T JCSG did analyze the extent to which all scenario options for undergraduate fixed wing and rotary wing would reduce excess capacity across the 12 undergraduate flight training bases. The results were presented to the ISG leadership during their review and evaluation of proposed scenarios.

Issue: GAO states “Our analysis indicates that \$1.3 billion, or over 95 percent, of the group’s projected 20-year savings results from two recommendations that involve only the Army—the combat service support center and the air defense artillery center” (pg. 141).

Response: These are not exclusively Army recommendations. Although predominately Army, the Specialized Skill Training portion of the recommendations include the Navy, Air Force and Marine Corps.

Issue: GAO states, “However, the chairman noted that his group could not get the Navy to agree to the consolidation because of the Navy’s concerns over how such actions would affect other training schedules, so it was not pursued” (pg. 142).

Response: The Department of the Navy did not support the consolidation because the scenario had a payback that exceeded 100 years. However, if the consolidation at Fort Rucker included a closure of Naval Air Station Whiting Field, or other airfields in related scenarios, a reasonable payback would have been realized. Other scenarios that included rotary wing training consolidation were not approved because of concerns over impact on student production, increased travel costs, and airfield and airspace capacity saturation.

Issue: GAO states, “The Education and Training Joint Cross Service Group also developed a proposal to privatize graduate education that was conducted at the Naval Postgraduate School at Monterey, California, and the Air Force Institute of Technology at Wright-Patterson Air Force Base, Ohio. The group estimated that the proposal would produce \$14 million in 20-year savings, with payback in 13 years, and enable the closure of the Monterey location.” (pg. 143).

Response: The E&T JCSG, along with the Department of Navy, estimated the scenario would produce \$1.12 billion in 20-year savings, with payback as immediate, and enable the closure of the Monterey location and the facility supporting graduate education for the Air Force Institute of Technology at Wright-Patterson Air Force Base.

Issue: GAO states, “The group also developed a recommendation to consolidate all the military services’ senior war colleges at Fort McNair, Washington, D.C., making them one college of the National Defense University. The group estimated that the proposal would produce \$213 million in 20-year savings, with payback in 2 years” (pg. 143)

Response: The candidate recommendation in question actually called for co-locating all the military services’ senior war colleges at Fort McNair, Washington, D.C., making them part of the National Defense University. The E&T JCSG estimated that the proposal would produce \$408 million in 20-year savings, with payback in 1 year.

Headquarters and Support Activity Joint Cross-Service Group

Issue: The GAO report cites concerns the DoD Inspector General’s raised about how the Headquarters and Support Activity (HSA) JCSG applied rounding in applying personnel eliminations (pg. 152).

Response: The HSA JCSG implemented a prudent personnel reduction determination process that began with application of a standard, and conservative, elimination rate based on co-location or consolidation, followed with negotiating with the affected entities, and exercising military judgment through deliberations to avoid creating an arbitrary factor. The range of eliminations both reflected and allowed for unique characteristics of each organization involved. While the application of eliminations or rounding may seem nonstandard, that truly reflects the strength of the HSA JCSG approach. Instead of applying a standard and arbitrary factor to every scenario, the HSA JCSG fostered a process to balance (a) obtaining efficiency and shared savings with (b) the operational needs of the entities under consideration. Reflecting this conservative approach, approximately 80 percent of the HSA JCSG recommendations had elimination rates of less than 20 percent.

Issue: The GAO report notes that DoD’s recommendations would “reduce total DoD leased space in the National Capital Region from 8.3 million square feet to about 1.7 million square feet, or by 80 percent.” The report states “the recommendations related to vacating leased space also raise questions about a limitation in projected savings and impact on local communities,” (pg. 158).

Response: It is important to highlight the relative size of DoD leased space within the commercial real estate sector in the region. There are approximately 369 million square feet of commercial leased space within the Washington, DC, metro area and 164 million square feet in Northern Virginia. The reduction represents an insignificant percentage of

the total commercial real estate market. Historical absorption rates also suggest that recovery is achievable, and the impact is likely insignificant for the National Capital Region.

Issue: The GAO discusses the application of one time cost avoidances associated from moving from leased facilities onto government owned and protected facilities. The report notes that HSA applied the cost avoidance factor consistently “but did not collect data that would indicate whether existing leases met” force protection standards (pp. 158-159).”

Response: While deliberating movement from leased space, the HSA JCSG considered current Department policy for meeting Anti-Terrorism/Force Protection (AT/FP) a necessity. It is important to note that the removal of the AT/FP premium does not materially affect any of the HSA JCSG recommendations. Removing 100 percent of the AT/FP premium only decreases the aggregate 20-year Net Present Value (NPV) savings 4.6 percent, and the remaining NPV savings still total \$5.546 billion. In the specific Stennis example cited in the GAO report, removal of the AT/FP premium reduces NPV savings from \$196.669 million to \$194.887 million, with no impact on payback years. Although the most accurate way to assess the cost of AT/FP compliance would be to grade each leased and owned building in the DoD inventory, this approach was not feasible given time and resource constraints. Therefore, the HSA JCSG applied a conservative AT/FP premium to all cases in order to ensure a balanced, equitable, and realistic comparison. It was appropriate for the HSA JCSG to apply the premium even in cases where the current leased occupancy represents less than 25 percent of the space in the building (thus currently AT/FP compliant by Uniform Facilities Criteria), as future building occupancy-based compliance could change or the lessee may not remain in place throughout the BRAC horizon.

The future Pentagon Force Protection Agency (PFPA) study mentioned in the GAO report was not available to the HSA JCSG, and is not relevant to the BRAC process. Certainly, threat vulnerability is a dynamic of AT/FP and the PFPA study, when conducted, will be helpful with respect to the threat associated with a specific building. This information may prove useful in the future management of leased space within the Department, but could not be a factor in the HSA JCSG recommendations.

Issue: GAO states, “While the proposal to create joint bases by consolidating common installation management functions is projected to create greater efficiencies, our prior work suggests that implementation of these actions may prove challenging,” (pg. 161).

Response: While Joint Basing initiatives may present implementation challenges, these challenges are surmountable and the potential for increased efficiency and effectiveness is significant. The fact is, tenant relationships exist aboard many Bases and Stations today. The period of time preceding implementation allows ample opportunity to

develop and refine common terminology and operating standards. Leveraging this potential leads to efficiencies that benefit operational forces and the taxpayer.

Issue: Under the heading "Bundling Lessens Visibility of Costs," GAO states, "We found that in 7 instances, the more than 10-year payback periods of initially stand-alone proposals tended to be masked after they were combined in such packages," (pg. 162).

Response: Integration of scenarios was a management tool for the large number of recommendations during the latter stages of deliberations, and generally centered on common closure recommendations or groupings of entities with similar functions. The HSA JCSG provided multiple recommendations to the Army that combined to support the closures of Forts Monroe and McPherson. The movement of Headquarters from the Washington, DC, area to Fort Sam Houston, one small element from Rock Island, and the Army Materiel Command (AMC) remained. The HSA JCSG grouped these remaining entities as the "Relocation of Headquarters and Field Operating Agencies from the National Capital Region" recommendation. The relocation of AMC fit cleanly into this "grouping."

Issue: The report indicates that JCSG personnel stated that the Infrastructure Steering Group (ISG) rejected the U.S. Southern Command recommendation because costs associated with the relocation were too high (pg. 164).

Response: For clarity, the reasons why the ISG removed this recommendation from further consideration are as documented in the ISG minutes for March 25, 2005. The ISG agreed that the options presented at that meeting (moving SOUTHCOM to a state-owned leased facility, Patrick AFB, Lackland AFB or Homestead AFB) were not viable because SOUTHCOM can be accommodated locally without a costly relocation. In addition, SOUTHCOM judged Miami to be the best location for its mission for efficiency reasons.

Industrial Joint Cross-Service Group

Issue: The GAO cites the concerns raised by Red River Army Depot officials about the complexities associated with replicating its rubber production capability, which consists of removing and replacing rubber pads for vehicle track and road wheels, at Anniston Army Depot, Alabama, and points out Red River is currently the only source for road wheels for the Abrams M1 tank (pg. 90).

Response: The Industrial JCSG (IJCSG) did recommend that Red River's Rubber Products capability be realigned to Anniston Army Depot. Anniston responded by estimating the costs to transition this capability during several scenario data calls. In addition, the IJCSG did consider the impact of maintaining current rubber production capacity and capability during this transition period in making its recommendation to realign Red River's depot maintenance activities. There are many historical examples where a Service has successfully implemented

BRAC decisions to disestablish capability at a losing depot and re-establish capability at a gaining depot during periods of high operational tempo without jeopardizing support to the war fighter. The same approaches and several of the same actions can be applied to maintaining rubber production capacity and inventory levels during the transition process. While the certification of the rubber production capability at Anniston Army Depot must be qualified through rigorous testing and is expected to be a time consuming process, production capability will remain at Red River until the certification is complete and transition can occur without negatively impacting the war fighter.

Issue: The GAO states, “no recommendations were developed regarding the Air Force’s three relatively large air logistics centers and only Navy-centric recommendations were developed regarding the Navy’s three naval air depots, despite that the industrial group had registered scenarios consolidating similar types of work from a naval air depot into air logistics centers.” The report states the IJCSG “decided not to propose these as recommendations because of the Navy’s desire to combine its aircraft depot and intermediate work into fleet readiness centers and because this recommendation offered greater financial benefits” (pg. 177).

Response: The IJCSG did analyze the depot maintenance workloads remaining at the Naval Air Depots after development of the fleet readiness center scenario construct. Based on the optimization model analysis, which included all aviation depots (including Air Force depots), a potential candidate was identified for realignment. However, further analysis revealed it was not an economically sound scenario.

Issue: The GAO discusses the commercial leases at Army ammunition plants entered into under the authority of the Armament Retooling and Manufacturing Support Initiative (ARMS). The GAO speculates that early lease terminations could cause the Department to incur increased costs should these leases be terminated early. GAO cites an example of Indiana Army Ammunition Plant and increased costs of \$41 million due to early contract termination. They suggest termination costs should be included in the analysis for any contract that extends past the closure date (pp 182-183).

Response: IJCSG officials confirmed through the Joint Munitions Command that all existing ARMS related contracts expire within the BRAC window. Therefore there are no termination costs to include in the analysis. A list of all of the contracts with expiration dates was forwarded to the GAO on June 29, 2005.

Supply and Storage Joint Cross-Service Group

Issue: GAO reports that the savings projected by the Supply and Storage (S&S) JCSG from the use of performance-based logistics and reductions to duplicate inventories are uncertain. GAO notes that it lacked sufficient time to fully evaluate supporting documentation underpinning the S&S JCSG assumptions for savings. GAO correctly noted, however, that savings would be generated through the increased use of

performance based agreements that leverage the buying power that accrues from combining multi-service purchases under one agency (DLA) and concomitant reductions in inventory requirements (pg. 216).

Response: The S&S JCSG based its savings estimates on historically proven and documented results experienced in similar business process improvements such as the Performance Based Agreements currently in use by DLA. The savings projections were incorporated in S&S JCSG recommendations only after military judgment assessment and concurrence by the S&S JCSG Principals representing each Military Service.

Issue: GAO reports that the Supply and Storage (S&S) JCSG assumed that vacated infrastructure projected in S&S JCSG BRAC recommendations would remain unused after implementation and that the Defense Department would incur no sustainment or recapitalization costs. GAO states that this assumption was the basis for the approximately \$100M in net annual recurring savings claimed by the S&S JCSG. GAO further notes that the assumption that space vacated as a result of BRAC would remain unused is not necessarily valid and, as a result, savings may be overstated (pg. 217).

Response: The S&S JCSG did not make assumptions with respect to the disposition of vacated infrastructure following implementation of BRAC recommendations. S&S is unaware of any approved model or tool that can predict the future use of a structure or decision by an installation commander that would prevent re-occupation of a vacated structure. The savings associated with vacated infrastructure were generated by the Cost of Base Realignment Activity (COBRA) model. The S&S JCSG agrees with GAO that if vacated facility space continues to be used after implementation of the BRAC recommendations then savings estimates may not be achieved. However, if approved and implemented, this recommendation will vacate infrastructure and it is arguable that savings will still accrue to the Department even if the space is reoccupied. This is because once the S&S entities vacate, any other entity requiring infrastructure would otherwise have to create infrastructure and incur the associated costs. The availability of S&S vacated space would serve to offset or avoid those costs that would be incurred elsewhere.

Issue: GAO reports that the S&S JCSG had alternative recommendations other than the recommendation that was approved by the IEC for depot level reparable procurement management consolidation to DLA. GAO reports that additional savings could have been generated if Service representatives would have been less risk averse and therefore willing to transfer more responsibility from the inventory control points (ICPs) to DLA using the S&S JCSG alternative recommendations (pg. 217).

Response: This recommendation reflects the combined military judgment of the S&S JCSG and Military Services. The S&S JCSG Principals engaged in substantive dialogue on depot level reparable procurement management consolidation in order to ensure that support for the warfighter was in no way compromised by any of the recommendations

that would ultimately be implemented. Maintaining support for the warfighter, especially critical during this period as Military Services are engaged and forward deployed in the global war against terror, was a main tenet of the S&S JCSG throughout this BRAC round. Highly technical functions such as engineering were never envisioned as functionality that should transfer to an agency such as DLA that does not perform weapons systems engineering as a core function. The transfer of other ICP functions as suggested by GAO were also discussed and deliberated. However, the functions that were agreed upon to be transferred, the degree of responsibility that would transfer with them and the associated risk that would accompany implementation of the recommendation were validated as acceptable outcomes by the collective military judgment of the S&S JCSG Principals. As GAO maintains in this GAO report, "GAO believes DLA management of ICPs and DLRs is transformational."