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United States Government Accountability Office  
Washington, DC 20548

September 6, 2007

The Honorable Frank Lautenberg  
The Honorable Robert Menendez  
United States Senate

The Honorable Rush Holt  
The Honorable Frank Pallone  
The Honorable Jim Saxton  
The Honorable Christopher Smith  
House of Representatives

Subject: *Military Base Realignments and Closures: Observations Related to the 2005 Round*

This correspondence is in follow-up to our August 1, 2007, meeting to discuss your concerns about changes in the cost and savings estimates and the potential loss of expertise and experience from the closure of Fort Monmouth, New Jersey, among other issues, since the recommendation to close Fort Monmouth as part of the Department of Defense's (DOD) 2005 Base Realignment and Closure (BRAC) round became effective. As we discussed with you, our BRAC work since the independent Defense Base Closure and Realignment Commission's (the Commission) recommendations became effective has been done under the authority of the Comptroller General to conduct reviews on his own initiative<sup>1</sup> and has focused on the implementation of realignment and closure actions. Consistent with our approach, we offered to briefly summarize the observations we made in 2005 publicly about the 2005 BRAC round, specifically those related to Fort Monmouth, under the authority of the Comptroller General to conduct reviews on his own initiative, and you believed this would be helpful. As such, the objective of this correspondence is to summarize the observations we made publicly on the 2005 BRAC round prior to the Commission's final recommendations. We also agreed to review, under the Comptroller General's authority to conduct reviews on his own initiative, the methodology of a forthcoming DOD report on the transfer of technical capabilities from Fort Monmouth to Aberdeen Proving Ground, Maryland.

The law authorizing the 2005 BRAC round<sup>2</sup> directed us to independently assess DOD's process and recommendations and report by July 1, 2005.<sup>3</sup> As such, we issued a report

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<sup>1</sup>31 U.S.C. § 717.

<sup>2</sup>P.L. 107-107, Title XXX (2001).

<sup>3</sup>GAO, *Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments*, GAO-05-785 (Washington, D.C.: July 1, 2005).

# Report Documentation Page

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on that date and testified before the Commission twice in 2005.<sup>4</sup> Subsequently, we have initiated several engagements under the authority of the Comptroller General to conduct reviews on his own initiative to review implementation of certain BRAC actions because of broad congressional interest in these actions. Some of the engagements that we are currently undertaking address, in part, issues that you raised. We will provide copies of those reports related to the closure of Fort Monmouth when they are completed.

To prepare this correspondence, we relied on our report on the 2005 BRAC decision-making process and our testimonies before the Commission in May 2005 and July 2005.<sup>5</sup> We did not perform additional interviews, information gathering, or analysis to prepare this correspondence. We did not reevaluate or reassess our earlier findings. Additionally, we reviewed the Commission's final report and included information from that report,<sup>6</sup> where applicable, to provide context for how the issues we previously identified were addressed by the Commission. We limited the scope of this correspondence to those issues raised in our report and testimonies on the 2005 BRAC decision-making process, but included updated information from our BRAC work issued since 2005, as appropriate. Our previous work on which this correspondence was based was performed in accordance with generally accepted government auditing standards.

## Summary

Prior to the Commission's final decisions in September 2005, we presented numerous observations about DOD's 2005 BRAC recommendations and decision-making process. While we found that DOD used a fundamentally sound overall process that was generally logical, well documented, and reasoned to determine its BRAC recommendations, we identified limitations with DOD's cost and savings estimates and potential human capital challenges in implementing some of the recommendations, among other observations. We noted that projected savings could be overestimated. For example, in 2005, we found that some of DOD's assumptions related to business process reengineering were not validated and the actual savings for these recommendations would be based on how the recommendations were implemented. Also in 2005, we identified the potential loss of expertise and experience due to fewer than anticipated civilian employees moving to a gaining base as a potential issue for some closure and realignment actions.

Because we drew from our past work and published documents in preparing this correspondence, we did not seek official comments from DOD on its contents, but did advise them that we were issuing this correspondence.

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<sup>4</sup>GAO, *Military Base Closures: Observations on Prior and Current BRAC Rounds*, GAO-05-614 (Washington, D.C.: May 3, 2005); and *Military Bases: Observations on DOD's 2005 Base Realignment and Closure Selection Process and Recommendations*, GAO-05-905 (Washington, D.C.: July 18, 2005).

<sup>5</sup>GAO-05-785, GAO-05-614, and GAO-05-905.

<sup>6</sup>Defense Base Closure and Realignment Commission, *2005 Base Closure and Realignment Commission Report to the President* (Arlington, Va.: Sept. 8, 2005).

## Background

DOD has undergone four BRAC rounds since 1988 and is currently implementing its fifth round.<sup>7</sup> In May 2005, the Secretary of Defense made public 222 recommendations that were estimated to generate net annual recurring savings of \$5.5 billion beginning in fiscal year 2012. In making its 2005 realignment and closure recommendations, DOD applied legally mandated selection criteria that included military value, costs and savings, economic impact to local communities, community support infrastructure, and environmental impact. BRAC legislation directed the Secretary of Defense in applying this criteria to give priority consideration to the military value over other criteria. In fact, military value was the primary consideration for making BRAC recommendations, as reported by both DOD and the Commission. DOD established a structured and largely sequential process for obtaining and analyzing data that provided an informed basis for identifying and evaluating realignment and closure options. DOD incorporated into its analytical process several key considerations required by BRAC legislation, including the use of certified data,<sup>8</sup> basing its analysis on its 20-year force structure plan, and emphasizing its military value selection criteria. Additionally, the Secretary of Defense established three goals for the 2005 BRAC round: (1) reducing excess infrastructure and producing savings, (2) transforming DOD by aligning the infrastructure with the defense strategy, and (3) fostering jointness across DOD. In our 2005 report, we stated our belief that the recommendations overall would produce savings and noted that the extent of transformational and joint progress would vary.

The Commission was an independent body that had the authority to change the Secretary's recommendations if it determined that the Secretary deviated substantially from the legally mandated selection criteria and the force structure plan. The Commission formulated its list of recommendations based on DOD's proposed recommendations and the Commission's analysis of the extent to which DOD followed the selection criteria and the force structure plan. For example, the Commission found that DOD substantially deviated from military value and two of the other selection criteria and the force structure plan and removed the proposed realignment of the Night Vision and Electronic Sensors Directorate and a related program manager from Fort Belvoir, Virginia, to Aberdeen Proving Ground, Maryland, from the recommendation that included the closure of Fort Monmouth. After the Commission's review in 2005, it forwarded a list of 182 recommendations for base closures or realignments to the President. The Commission estimated that its recommendations would generate net annual recurring savings of \$4.2 billion beginning in fiscal year 2012. The Commission's

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<sup>7</sup>The first round in 1988 was authorized by the Defense Authorization Amendments and Base Closure and Realignment Act, as amended (Pub. L. No. 100-526, Title II, (1988)). Subsequently, additional BRAC rounds were completed in 1991, 1993, and 1995 as authorized by the Defense Base Closure and Realignment Act of 1990, as amended (Pub. L. No. 101-510, Title XXIX (1990)). The latest round—BRAC 2005—was authorized by the National Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107, Title XXX (2001)).

<sup>8</sup>The law that established certain provisions of the BRAC process (Pub. L. No. 101-510, section 2903 (c)(5)) required specified DOD personnel to certify to the best of their knowledge and belief that information provided to the Secretary of Defense or the Commission concerning the realignment or closure of a military installation was accurate and complete. During the BRAC process, data were certified by senior officials at DOD installations.

recommendations were accepted in their entirety by the President and Congress,<sup>9</sup> became effective November 9, 2005, and constitute the set of recommendations that DOD was in the process of implementing at the time of this correspondence.

## **We Made Numerous Observations about the 2005 BRAC Recommendations and Process**

While we concluded that DOD used a fundamentally sound overall process, we also made numerous observations about the department's BRAC recommendations and decision-making process. On the one hand, we reported that DOD's decision-making process for developing its BRAC recommendations was generally logical, well documented, and reasoned. On the other hand, we also identified limitations with cost and savings estimates and certain human capital challenges related to the potential loss of experience and expertise after certain recommendations were implemented, among other observations.

### Limitations with Cost and Savings Estimates

In our assessment of DOD's 2005 BRAC round, we reported that DOD's decision-making process for developing its BRAC recommendations was generally logical, well documented, and reasoned and we stated our belief that the 2005 BRAC recommendations would produce savings overall; however, we identified some limitations with cost and savings estimates. As in all previous BRAC rounds, DOD used the Cost of Base Realignment Actions (COBRA) model to provide a standard quantitative approach to compare estimated costs and savings across various proposed recommendations. The COBRA model relies to a large extent on standard factors and averages but is not intended to and consequently does not present budget quality estimates, as we pointed out in 2005 (GAO-05-785, p. 242).<sup>10</sup> As a result, COBRA-developed cost and savings estimates cannot be assumed to represent the actual costs that Congress will need to appropriate funds to complete implementation of BRAC recommendations, nor will they fully reflect the savings to be achieved after implementation. In other words, the costs of implementation identified in COBRA are likely to be different than the costs that DOD will incur to complete implementation. We have examined COBRA in the past, as well as during our review of the 2005 BRAC round, and found it to be a generally reasonable estimator for comparing potential costs and savings among alternative closure and realignment scenarios with the caveat that the estimates do not represent budget quality data. Nonetheless, we raised a number of issues related to the cost and savings estimates resulting from realignment and closure decisions including the following.

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<sup>9</sup>The President was required to approve or disapprove the Commission's recommendations in their entirety by September 23, 2005. After they were approved, the recommendations were forwarded to Congress, which had 45 days or until the adjournment of Congress to disapprove the recommendations on an all-or-none basis; otherwise, the recommendations became binding.

<sup>10</sup>Budget quality estimates were to be developed once BRAC decisions were made and detailed implementation plans were developed.

- Reassigning military personnel could provide a false sense of savings.** We reported that nearly half (47 percent) of the projected net annual recurring savings from DOD’s BRAC recommendations were associated with eliminating positions currently held by military personnel. However, rather than reducing end strength levels, DOD intended to reassign or shift these personnel to other areas, which may enhance capabilities in these other areas, but also limits dollar savings available outside of the personnel accounts for other uses. Although we agree that transferring personnel to other positions may enhance capabilities and allows DOD to redirect freed-up resources to another area of need, we do not believe that such transfers produce a tangible dollar savings that DOD can apply to fund other defense priorities outside the military personnel accounts because these personnel will remain in the end strength (GAO-05-785, p. 22-23). The Commission concurred with our position and rejected the closure of Ellsworth Air Force Base, South Dakota, in part because the Commission believed that the closure would result in a cost increase and not a savings. The Commission stated their belief that savings were unlikely because the Air Force planned to use the positions for other missions, meaning the incumbents would remain in the Air Force continuing to draw salaries and benefits (Commission report, p. 160). In contrast, DOD considers military personnel reductions attributable to BRAC recommendations as savings because the reductions in military personnel allow DOD to reapply these military personnel to support new capabilities and to improve operational efficiencies. We would note that the counting of “savings” in this way is a long-standing disagreement between DOD and us.
- Magnitude of savings from business process reengineering efforts was uncertain.** About \$500 million, or about 9 percent, of the projected net annual recurring savings from DOD’s proposed recommendations was based on business process reengineering efforts, but the expected efficiency gains from these recommendations were based on assumptions that were subject to some uncertainty and had not been validated. We reported that actual savings would be shaped by how the recommendations were implemented (GAO-05-785, p. 24-26). In June 2007 we reported that the Navy had revised its cost and savings estimates for its recommendation to create fleet readiness centers and, while projected savings from the recommendation are still likely to be substantial, they are subject to some uncertainties and further efforts will be required to assess actual savings as the recommendation is implemented.<sup>11</sup> The Commission also expressed concern about the savings that DOD claimed for business process reengineering-related recommendations and questioned the assumptions the department used to support these projected savings (Commission report, p. 330).
- Lengthy payback periods for many recommendations.** Many of DOD’s proposed recommendations are likely to experience lengthy payback periods—the time required for cumulative estimated savings to exceed cumulative

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<sup>11</sup>GAO, *Military Base Closures: Projected Savings from Fleet Readiness Centers Likely Overstated and Actions Needed to Track Actual Savings and Overcome Certain Challenges*, GAO-07-304 (Washington, D.C.: June 29, 2007).

estimated costs—which, in some cases, called into question whether the department would be gaining sufficient monetary value for the up-front investment cost required to implement its recommendations and the time required to recover this investment. More than one-third of DOD’s proposed recommendations would have taken more than 6 years to pay back or would never produce savings. The longer payback period associated with certain recommendations was due, in part, to the Secretary’s stated goal for the 2005 BRAC round of transformation, including rebasing in the United States of about 47,000 forces stationed overseas, recommendations to move activities from leased space to military installations, and recommendations involving the reserve components that are projected to have a combination of relatively high military construction costs and relatively low annual recurring savings (GAO-05-785, p. 41-42). For example, in May 2007 we reported that our analysis of the Air Force’s recommendations related to the Air National Guard showed that implementing these recommendations would result in a net annual recurring cost of \$53 million, rather than a net annual recurring savings of \$26 million as estimated by the Commission.<sup>12</sup> The Commission reported that the 2005 BRAC round was different from previous rounds in that the historical goal of achieving savings was not always the primary consideration and other goals, such as transformation, led to proposed recommendations that had long payback periods or would never pay back (Commission report, p. 3).

- **Differences between communities and DOD on cost and savings estimates.** During our July 2005 testimony before the Commission, we noted that we had observed a number of instances, such as the closure of Fort Monmouth, where there were disagreements between what installation officials believed it would cost to implement certain BRAC recommendations and what DOD included in the COBRA model. We stated in our July 2005 testimony that we believed these differences would be worked out over time as implementation plans were developed, but we also suggested that at least some of the differences needed to be reconciled between the Commission, DOD, and affected installations. The Commission’s final report does not state what actions the Commission took to address this suggestion.
- **Savings assumptions for some civilian and military personnel reductions lacked manpower studies.** In 2005, we identified issues with the assumptions that two joint cross-service groups used to determine personnel reductions for closure and realignment actions, which raised questions about projected savings. In the absence of more precise manpower studies, the groups used generic savings factors to estimate the number of personnel positions that could be eliminated when organizations were co-located or consolidated. However, these reductions were based on assumptions that had undergone limited testing and full savings realization depends upon the attainment of these personnel reductions

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<sup>12</sup>GAO, *Military Base Closures: Management Strategy Needed to Mitigate Challenges and Improve Communication to Help Ensure Timely Implementation of Air National Guard Recommendations*, GAO-07-641 (Washington, D.C.: May 16, 2007).

(GAO-05-785, p. 157, 229). The Commission expressed a concern that manpower reductions for at least one recommendation, which created several joint bases, were determined through the application of a formula and not through deliberations among commanders of affected installations and, therefore, manpower reductions were directed by the recommendation rather than derived from manpower studies and analyses of the functions to be carried out (Commission report, p. 219-222).

- **Full estimated environmental restoration costs were uncertain.** Consistent with prior BRAC rounds, DOD excluded estimated environmental restoration costs from its cost and savings estimates on the premise that restoration is a liability that the department must address regardless of whether a base is kept open or closed. Our prior work has shown that environmental costs can be significant, accounting for about one-third, or \$8.3 billion, of the \$23.3 billion in costs incurred through fiscal year 2003 for implementing BRAC actions from the four previous rounds. As for the 2005 BRAC round, we reported in January 2007 that, while the expected environmental cleanup costs from the 2005 BRAC round are not fully known, DOD data indicate that about \$950 million will be needed to clean up those bases that were closed in the 2005 BRAC round.<sup>13</sup> As we stated in testimony before the Commission in 2005, environmental restoration has the potential to slow the transfer of unneeded base property freed up by the BRAC process to communities surrounding those bases, which has adverse effects on BRAC communities, as this property cannot be put to productive reuse until cleanup is substantially completed. In this regard, we stated that it is critical that the department adequately plan for and fund environmental restoration requirements to provide for the expedited transfer of unneeded property to others for subsequent reuse (GAO-05-905, p. 29). The Commission agreed with our concerns (Commission report, p. 335).
- **Certain other expected costs and savings to the government were not accounted for.** As we reported in 2005, the BRAC legislation required that DOD take into account the effect of proposed closures and realignments on the costs of any other activity of the department or any other federal agency that may be required to assume responsibility for activities at military installations. While the military services and joint cross-service groups were aware of the potential for these costs, estimated costs were not included in the cost and savings analyses because it was unclear what actions an agency might take in response to the BRAC action (GAO-05-785, p. 44-45). The Commission report recommended that in the future the department improve coordination with other affected federal agencies so that savings estimates do not ignore the increased or shifted costs of federal operations to agencies outside of DOD (Commission report, p. 308).

Additionally, although not required to be included in DOD's cost and savings analysis, costs associated with transition assistance, planning grants, and other

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<sup>13</sup>GAO, *Military Base Closures: Opportunities Exist to Improve Environmental Cleanup Cost Reporting and to Expedite Transfer of Unneeded Property*, GAO-07-166 (Washington, D.C.: Jan. 30, 2007).

assistance made available to affected communities by DOD and other agencies could add to the total costs to the government of implementing BRAC. We reported that in the prior four BRAC rounds, four federal government agencies provided nearly \$2 billion in assistance through fiscal year 2004 to communities and individuals. DOD officials said these agencies are slated to perform similar roles in the 2005 round. However, in contrast to other BRAC rounds, assistance will likely be needed not only for communities surrounding bases that are losing missions and personnel, but also communities that face considerable challenges dealing with large influxes of personnel and military missions. These personnel increases are likely to place additional demands on community services, including the provision of adequate housing and schools and increased demand for roads and utilities. Some communities may not have adequate resources to address needs related to the large influxes of people in the short term and, consequently, the federal government may have to provide some assistance, thereby increasing BRAC implementation expenditures (GAO-05-785 p. 47-52).

Potentially offsetting some of these costs, we reported in 2005 that the cost and savings estimates excluded anticipated revenue from the sale of unneeded former base property or the transfer of property to communities through economic development conveyances. The potential for significant revenue exists at certain locations (GAO-05-785, p. 47-48). We noted in our July 2005 testimony that there was an indication that the department would place greater emphasis on selling property as a disposal process, but details were still being formulated at that time.

- **DOD's past efforts at tracking actual cost and savings had been limited.** In our testimony before the Commission we stated that the department proposed various actions where likely savings would depend on how the actions were implemented, but the details of their implementation had yet to be developed. We noted that we believed it would be important for DOD to develop clearly defined implementation plans and to monitor the implementation of these actions to ensure compliance with proposed actions and to help ensure that these savings in fact occurred. In our assessment of the 2005 BRAC process we recommended that DOD establish mechanisms for tracking and periodically updating savings estimates as the BRAC recommendations are implemented. DOD concurred with this recommendation.

### Human Capital Challenges

We identified the potential loss of human capital skills, including expertise and experience, as an issue for some of DOD's proposed realignment and closure actions. We pointed out to the Commission that gaining bases may face challenges if fewer people moved. For example, related to the proposed but subsequently overturned closure of Naval Shipyard Portsmouth, Maine, officials from one of the joint cross-service groups estimated that it would have taken up to 8 years to fully develop skills associated with maintaining nuclear-powered submarines. Officials at Fort Monmouth, New Jersey, expressed a similar concern about the proposed closure of that installation and transfer of a large portion of the work to Aberdeen Proving Ground, Maryland. We noted in our

July 2005 testimony before the Commission that should there be BRAC actions where the loss of personnel is extensive, particularly for those skills requiring extensive education, training, and experience, the department could face challenges in replacing these critical skills. In this regard, we noted that it was important that the department develop transition plans that recognize the loss of human capital skills and provide for replacement capability to minimize disruption to ongoing defense operations. We also concluded in 2005 that without such a plan, the department's ability to provide the necessary support to military forces could be at risk (GAO-05-905, p. 25-26).

The Commission's report included concerns about the loss of intellectual capital as a result of some closure or realignment actions. For example, the Commission specifically noted that the loss of some intellectual capital was to be expected from the relocation of technical activities from Fort Monmouth to Aberdeen Proving Ground. The Commission report stated that the Commission agreed with DOD's view that the loss of intellectual capital was an implementation challenge that must be managed with careful planning and sequencing. The Commission concluded that the adverse effects of moving existing programs could be managed over the 6-year implementation period by properly sequencing the movement of programs to ensure no loss in service, or by providing temporary redundant or duplicative capabilities as necessary to ensure continuous and uninterrupted program integrity. Further, the Commission report stated "the department pointed out that there is a nationally recognized science and technology workforce in Maryland containing the highest percentage of professional and technical workers (about 24 percent)." To address the potential loss of intellectual capital, the Commission recommended that the Secretary of Defense submit a report to certain congressional committees that addresses aspects of the potential loss of expertise and experience. Specifically, the Commission recommended that the Secretary of Defense submit a report to the congressional committees of jurisdiction that movement of operations, functions, or activities from Fort Monmouth to the Aberdeen Proving Ground will be accomplished without disruption of support to the Global War on Terrorism or other critical contingency operations and that safeguards exist to ensure that necessary redundant capabilities have been put in place to mitigate the potential degradation of such support, and to ensure maximum retention of critical workforce. Also, the Commission noted that they believed congressional oversight on this issue may benefit from a review by us (Commission report, p. 10-12). Because the Commission suggested our review in its findings on the closure of Fort Monmouth and you have requested that we review the methodology of the DOD report, we will review the methodology after DOD issues its report.

### **Agency Comments**

Because we drew from our past work and published documents in preparing this correspondence, we did not seek official comments from DOD on its contents, but did advise them that we were issuing this correspondence.

We are sending copies of this correspondence to the Chairman and Ranking Member of the Senate and House Committees on Armed Services; the Chairman and Ranking Member of the Senate and House Committees on Appropriations, Subcommittees on Defense; the Chairman and Ranking Member of the Senate and House Committees on Appropriations, Subcommittees on Military Construction, Veterans Affairs, and Related Agencies; the Chairman and Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs; the Chairman and Ranking Member of the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia; the Chairman and Ranking Member of the House Committee on Oversight and Government Reform; members of the Congressional delegations from Maryland, New Jersey, New York, and Virginia; the Secretary of Defense; and the Director, Office of Management and Budget. We will also make copies to others upon request. In addition, the correspondence will be available at no charge on GAO's Web site at <http://www.gao.gov>.

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A handwritten signature in black ink, appearing to read "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore  
Director  
Defense Capabilities and Management

(351089)

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