

**Statement of
Robert F. Hale
Assistant Director
National Security Division
Congressional Budget Office**

**before the
Subcommittee on Defense
and the
Subcommittee on Military Construction
Committee on Appropriations
United States Senate**

April 4, 1989

NOTICE

**This statement is not available for
public release until it is delivered
at 2:00 p.m. (EDT), Tuesday,
April 4, 1989.**

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

| | | | | | |
|---|------------------------------------|-------------------------------------|---|---|---------------------------------|
| 1. REPORT DATE 04 APR 1989 | | 2. REPORT TYPE | | 3. DATES COVERED 00-00-1989 to 00-00-1989 | |
| 4. TITLE AND SUBTITLE Statement of Robert F. Hale Assistant Director National Security Division Congressional Budget Office before the Subcommittee on Defense and the Subcommittee on Military Construction Committee on Appropriations United States Senate | | | | 5a. CONTRACT NUMBER | |
| | | | | 5b. GRANT NUMBER | |
| | | | | 5c. PROGRAM ELEMENT NUMBER | |
| 6. AUTHOR(S) | | | | 5d. PROJECT NUMBER | |
| | | | | 5e. TASK NUMBER | |
| | | | | 5f. WORK UNIT NUMBER | |
| 7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Budget Office ,Ford House Office Building, 4th Floor ,Second and D Streets, SW ,Washington,DC,20515-6925 | | | | 8. PERFORMING ORGANIZATION REPORT NUMBER | |
| 9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES) | | | | 10. SPONSOR/MONITOR'S ACRONYM(S) | |
| | | | | 11. SPONSOR/MONITOR'S REPORT NUMBER(S) | |
| 12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited | | | | | |
| 13. SUPPLEMENTARY NOTES | | | | | |
| 14. ABSTRACT | | | | | |
| 15. SUBJECT TERMS | | | | | |
| 16. SECURITY CLASSIFICATION OF: | | | 17. LIMITATION OF ABSTRACT Same as Report (SAR) | 18. NUMBER OF PAGES 18 | 19a. NAME OF RESPONSIBLE PERSON |
| a. REPORT unclassified | b. ABSTRACT unclassified | c. THIS PAGE unclassified | | | |

Chairman Inouye, Chairman Sasser, and Members of the Committee, I appreciate the opportunity to testify before you this afternoon on the Congressional Budget Office's (CBO's) analysis of the costs and savings of past military base closures and realignments. I hope that our work on this important subject will help this Committee and the Congress as they review the plans of the Department of Defense (DoD) to close and realign military bases.

The Commission on Base Realignment and Closure has estimated that their recommended actions will eventually save \$693.6 million annually in base operating costs. After deducting the one-time costs associated with closing bases, the commission estimates that the net present value of savings will total \$5.6 billion over the next 20 years.

To provide a perspective on these projected savings, CBO has estimated the costs and savings associated with selected base closings and realignments that occurred during the 1970s. We focused on nine bases for which some historical data were available and used the data to estimate both the recurring annual savings and the one-time net costs involved with base closings and realignment. The commission's estimates of savings fell at the upper end of the range suggested by our data. Unfortunately, missing historical data and differences in definitions make comparisons of one-time costs and savings unclear.

My testimony also discusses three potential issues raised by our analysis that relate directly to the commission's recommendations. These issues include the

effect of base closings and realignments on the budget deficit, the problem of defining one-time costs and savings, and the method of specifying the payback period.

My testimony does not assess the advantages and disadvantages of the currently proposed package of base closings and realignments. Nor will I assess the commission's cost estimates, though the historical costs in this statement may provide helpful background. CBO is examining the data that support the commission's cost estimates, and any future cost estimate that we prepare will reflect this analysis.

BACKGROUND: BASE CLOSINGS DURING THE 1980s

No major military bases have been closed during the 1980s. This lack of closings has been attributed to a variety of factors, including:

- o Legal impediments that both prohibit and delay base closings;
- o Lack of financial incentives to the Department of Defense to reduce the number of bases; and
- o Expansion of military forces in the early 1980s.

Legal Impediments

In recent testimony to the House Armed Services Committee, former Secretary of Defense Frank Carlucci cited legislation that either prohibits specific base closings or delays such closings indefinitely as a major obstacle to reducing the number of bases. Secretary Carlucci noted that certain provisions in various DoD authorization and appropriations acts prevented the services from closing specific bases, including Fort Douglas, Utah; Whiting Field, Florida; and Mather Air Force Base, California. He also identified the National Environmental Policy Act (NEPA) as an example of legislation used by opponents of closure to delay it. This act mandates a time-consuming process of environmental and local impact studies, public hearings, and appeals before closings can occur. Efforts to close Loring and Richards-Gebauer Air Force Bases during the 1970s, for instance, foundered when NEPA's provisions were applied.

Lack of Financial Incentives

The lack of financial incentives to DoD has been a major long-term impediment to closing bases. Since 1949, the provisions of the Federal Property and Administrative Services Act (FPASA) have prohibited DoD from benefiting financially from the disposal of defense properties. On the other hand, DoD must assume the near-term costs of closing or realigning bases. This failure to provide balanced incentives for DoD discourages it from seeking the most efficient number of bases.

Expansion of the Military Force Structure

During the early 1980s, military forces expanded significantly; for example, the number of active Army divisions increased from 16 to 18 and that of Air Force fighter squadrons from 74 to 79. Since the size of the support structure for bases generally corresponds to the size of the force structure, there was no apparent need to close bases in view of the expanding force structure.

Since 1985, however, the environment for closing military bases has changed significantly. DoD does not currently anticipate any further expansion of its forces. As a result, the need to maintain or expand the number of bases is lessened. Moreover, the Base Closure and Realignment Act of 1988 contains provisions that remove some of the legal impediments to closing bases; these provisions also provide important new financial incentives to DoD to close excess bases and achieve a more efficient number of bases. For example, the act allows the closure process to begin before the environmental requirements of NEPA have been met. It also requires that revenues from the sales of facilities be placed in a fund that can be used to offset the costs of closing bases.

BASE CLOSINGS DURING THE 1970s

In contrast to the 1980s, hundreds of defense installations were closed or realigned during the 1970s. Many of these reductions corresponded with the winding down

of U.S. involvement in Vietnam. Other reductions promised savings by realigning operational units. Whether any savings were actually realized, however, is not known, since DoD did not subsequently conduct an analysis to assess the costs and savings of these base closures and realignments.

Unfortunately, the data necessary for CBO to conduct a comprehensive analysis of costs and savings of past closures and realignments either no longer exist or were unavailable to us. Enough data were available, however, so that we could make a general assessment of the costs and benefits associated with closing nine major bases in the 1970s. Data were sufficient for these bases so that we could estimate both recurring annual savings and one-time costs and savings. We were then able to use these two measures to determine the payback period--that is, the length of time needed to recapture the initial outlays.

Recurring Annual Savings

Base closures and realignments usually result in some recurring annual savings. These savings include the salaries of those military and civilian personnel no longer required as a result of closing or realigning a base; they also include reductions in base operations and support (BOS) costs--for lights, heat, administration, and other non-pay costs of maintaining a base. For the nine major base closings in CBO's study, savings varied widely depending on the size of the base and the degree to which missions on the base to be closed were transferred to other bases. Recurring annual savings at the nine bases averaged \$12.7 million

annually under the assumptions for a low estimate, \$15.6 million for the medium estimate, and \$22.9 million for the high estimate (see Table 1).

TABLE 1. RECURRING ANNUAL SAVINGS (In millions of 1989 dollars)

| Base | Low Estimate | Medium Estimate | High Estimate |
|----------------------|--------------|-----------------|---------------|
| Craig AFB | 10.3 | 11.1 | 18.0 |
| Forbes AFB | 15.5 | 16.7 | 18.8 |
| Fort MacArthur | 7.9 | 9.4 | 19.7 |
| Frankford Arsenal | 15.3 | 24.3 | 51.5 |
| Kincheloe AFB | 14.8 | 18.0 | 22.2 |
| Richards-Gebauer AFB | 16.0 | 26.1 | 32.3 |
| Rickenbacker AFB | 6.6 | 6.6 | 6.9 |
| Webb AFB | 11.8 | 12.3 | 20.1 |
| Westover AFB | 15.6 | 16.1 | 16.3 |
| Total | 113.9 | 140.6 | 205.8 |
| Average per Base | 12.7 | 15.6 | 22.9 |

SOURCE: Congressional Budget Office based on Department of Defense data.

NOTE: Savings in the table include those for military and civilian personnel salaries and related base operation and support costs.

The upper end of this range is consistent with the average savings of \$23.1 million per base estimated by the Commission on Base Realignment and Closure for the bases it recommended be closed or realigned.¹ This average is based on data from the 30 bases which, if closed, would eventually yield significant operating savings.

1. Base Realignments and Closures Department of Defense, Report of the Defense Secretary's Commission on Base Realignment and Closure (December 1988).

Military Personnel Savings. The services were not able to provide data on the actual reductions in the number of military personnel that resulted from closing the nine bases. CBO, therefore, estimated the savings for military personnel salaries on the basis of several assumptions.

CBO did have data on the total number of military personnel at each of the bases and on the current fraction of military personnel employed in base operations and support, which was about 11.4 percent. We then assumed that this same fraction of military personnel was involved in base operations and support at these nine bases. We further assumed that all personnel billets involved in base operations and support could be eliminated--that is, that none was needed to expand operations at those bases that absorbed missions from the nine closed facilities. The estimated savings from salaries of military personnel also rest on the assumption that BOS functions at the nine bases required the same average skill levels as BOS functions in today's military. Finally, we estimated the non-pay BOS costs associated with maintaining military personnel at a base by assuming that closing the base would result in savings of \$1,725 for each military person at the base--the average current factor for these non-pay costs.

Civilian Personnel Savings. CBO estimated a range of savings for civilian personnel. It calculated the low estimate of savings for civilian personnel by using the same methodology applied to military personnel; that is, civilian costs saved at each base equal the total civilian payroll at the base times the fraction (29.7

percent) of civilians currently involved in base operations. Savings for civilians included in the medium estimate are based on historical data that identify the proportion of civilians at the nine bases--about 50 percent--who did not find other employment within DoD or the federal government. Finally, savings for civilians in the high estimate were set to equal the total civilian payroll at the base. As with military personnel, the non-pay BOS costs associated with maintaining civilians at a base were estimated to average about \$1,725 per civilian employed at each of the closed bases.

This wide range of assumptions about savings associated with civilian personnel reflects uncertainty about what actually happened to civilians at bases closed in the 1970s. Did most of the civilians leave government service, or did they take jobs that would otherwise have been filled by other people seeking work, as the high savings assume they did? Or did most of them remain on the payroll and move to those bases that absorbed the military missions previously performed on the closed bases--a premise that would be more consistent with the low end of the range? Unfortunately, the available data do not provide a clear answer.

Time Required for Closure. Annual savings were not fully realized until the bases in the 1970s were fully closed. How long did that take? Data on the 33 major bases closed in the 1970s showed that it required an average of 4.2 years from the time the closing of the base was announced until all land was transferred from DoD control. There were, however, a wide range of delays. Most bases were

closed within one or two years, but a few closures--such as Frankford Arsenal and the Truman Annex--required more than 10 years to complete.

One-Time Costs and Savings

Closing and realigning bases may involve significant initial, one-time costs that could affect a decision of whether or not to close a base. For example, if one-time costs are so large that they could not be offset by recurring savings for many years, it might be inadvisable on economic grounds to close a base.

Costs. One-time costs include expenditures to relocate personnel and equipment, provide impact assistance to individuals and communities, and conduct environmental cleanup. In some cases, the initial costs of closing a base could include construction costs at a receiving base if it becomes necessary to accommodate personnel and equipment being transferred. In the case of the nine bases studied, the services were unable to provide data on the costs of transferring equipment or of additional military construction that may have been required.

Data were available, however, on the costs of relocating personnel and the costs of federal impact assistance. CBO estimated relocation costs based on current average costs for a permanent change of station (PCS) applied to the estimated number of military and civilians relocated as a result of closure or realignment. For the military, these costs were based on the number of military personnel minus those estimated to be assigned to base operations and support

functions. They include an adjustment to compensate for normal PCS rotations that would have occurred if the bases had not been closed. For civilians, PCS costs were based on the actual number of people assigned to other DoD or federal government positions outside their commuting area at the time of closure or realignment.

Savings. The one-time costs of closing a base can be partially offset by revenues obtained through the sale of property and assets. In the past, the General Services Administration (GSA) has managed the sale of excess DoD properties--an arrangement that has, in some cases, involved extended periods of time before sales are completed and revenues are received. Under the provisions of the Base Closure and Realignment Act, DoD is now authorized to manage the sale and disposal of its excess properties, and must deposit revenues received into a special account to be used to offset the initial costs of base closings and realignments. Whether or not this new arrangement will affect the extent and timing of the disposal of Department of Defense properties is not clear.

Net Costs. CBO calculated net initial costs of closings or realignment as the difference between one-time revenues from the sale of property and assets, and one-time costs of federal impact assistance plus relocation costs for military and civilian personnel (see Table 2). For the nine bases studied, the total revenue from sales approximately equaled the total amount of federal impact assistance. As a result, net initial costs were largely those of relocating personnel. These initial, one-time costs for the nine bases averaged about \$6.7 million. This figure

should be considered a low estimate, since it does not include costs of relocating equipment or additional construction.

It is interesting to note that revenues from the sales of property at the closed bases were only a fraction of the total value of the bases. At the 33 bases for which data were available, revenues from sales accounted for 35 percent of the total value of property sold or transferred. Apparently, many bases were given away or sold at a fraction of their value--perhaps to assist local communities whose economies were affected by closing the bases.

TABLE 2. ONE-TIME COSTS AND SAVINGS FROM NINE BASE CLOSINGS (In millions of 1989 dollars)

| Base | Savings | | Costs | |
|----------------------|------------------------------|---------------------------|----------------------|-----------|
| | Sales of Property and Assets | Federal Impact Assistance | Relocating Personnel | Net Costs |
| Craig AFB | 6.8 | 12.1 | 5.4 | 10.7 |
| Forbes AFB | 15.3 | 9.1 | 7.4 | 1.2 |
| Fort MacArthur | 5.1 | 0.9 | 4.6 | 0.4 |
| Frankford Arsenal | 3.7 | 27.8 | 10.0 | 34.1 |
| Kincheloe AFB | 6.9 | 19.9 | 7.4 | 20.4 |
| Richards-Gebauer AFB | 13.4 | 1.1 | 8.7 | -3.6 |
| Rickenbacker AFB | 9.9 | 0.2 | 3.0 | -6.7 |
| Webb AFB | 6.4 | 7.1 | 6.1 | 6.8 |
| Westover AFB | 14.8 | 4.7 | 7.2 | -2.9 |
| Total | 82.3 | 82.9 | 59.8 | 60.4 |
| Average per Base | 9.1 | 9.2 | 6.6 | 6.7 |

SOURCE: Congressional Budget Office based on Department of Defense and General Services Administration data.

Moreover, the speed with which one-time costs were incurred, and one-time savings were realized, varied widely. For example, more than 70 percent of federal impact assistance was provided within two years of the time the closing of the base began, while less than 1 percent of revenues from sales were received during that same time period.

Comparisons between these historical data on one-time costs and the commission's estimates are less clear than those for recurring savings because the two sets of estimates include different categories of costs. The commission estimated that net one-time costs would average about \$54 million per base for the 24 bases that had significant costs or savings. These one-time costs are much higher than the roughly \$7 million in one-time costs for the nine bases closed in the 1970s. Much of the difference is explained by the commission's inclusion of costs for military construction and moving equipment, for which historical data were unavailable. Excluding costs of construction, the commission estimated net one-time saving of about \$15 million per base compared with one-time costs of \$7 million per base for the bases closed in the 1970s. Part of this difference is explained by the commission's exclusion of costs of federal impact assistance. The commission argued that these costs were minimal, even though in the historical data the costs of impact assistance roughly equaled the revenues gained from sales of land. The commission's estimates of one-time costs and savings also exclude costs of hazardous waste cleanup, which the commission felt represented liabilities already incurred.

TABLE 3. THE NUMBER OF YEARS IT TOOK TO RECOVER ONE-TIME COSTS ON NINE BASES

| Base | Assume Low Savings | Assume Medium Savings | Assume High Savings |
|----------------------|--------------------|-----------------------|---------------------|
| Craig AFB | 2 | 1 | 1 |
| Forbes AFB | 1 | 1 | 1 |
| Fort MacArthur | 1 | 1 | 1 |
| Frankford Arsenal | 3 | 2 | 1 |
| Kincheloe AFB | 2 | 2 | 1 |
| Richards-Gebauer AFB | 1 | 1 | 1 |
| Rickenbacker AFB | 1 | 1 | 1 |
| Webb AFB | 1 | 1 | 1 |
| Westover AFB | 1 | 1 | 1 |

SOURCE: Congressional Budget Office.

The Payback Period

The commission allows a six-year time frame for recapturing the initial net costs of closing or realigning a base. Specifically, the commission's charter directs its members to recommend bases for closure or realignment when "total cost savings . . . will, by the end of the six-year period beginning with the date of the completion of the closure or realignment of the base, exceed the amount expended to close or realign the base."² This payback period can be estimated by using the one-time net cost figures in Table 2 and the recurring savings figures in Table 1. Table 3 shows the estimated payback periods for the nine bases according to the

2. Secretary of Defense, letter of May 3, 1988, to the Commission on Base Realignment and Closure.

various assumptions concerning recurring savings. Even if one assumes the lowest estimate of recurring annual savings, one-time costs were paid back within an average of less than two years, well within the six-year limit specified in the commission's charter. Of course, the one-time costs used on this calculation exclude the costs of military construction and so understate the payback period.

ISSUES RAISED BY THE HISTORICAL COSTS

In reviewing the commission's recommendations, the Congress should consider a number of issues raised by this research on the costs of past base closings and realignments.

How Will Savings Affect the Deficit?

Most savings from base closings and realignments stem from reduced personnel costs. But personnel reductions will reduce the federal budget deficit only to the extent that personnel at affected bases are eliminated from the federal work force or take jobs that would otherwise have been filled with new employees. If, for example, jobs at one base are transferred to another base, then no deficit reduction would occur. While this point is obvious, the historical data suggest that it is difficult to ascertain exactly how many personnel at closed facilities leave the work force or take jobs that would otherwise have been filled by new employees.

Thus, the Congress should realize that, even if the proposed package of base closures and realignments is approved in the next few months, decisions about levels of defense personnel and other factors that will be made over the next several years will actually determine the extent of deficit reduction. These decisions will have to be monitored if the Congress is to know whether base closures and realignments reduce the federal deficit. The Congress could, for example, require that DoD submit data each year as part of the report already required in connection with the Base Closure Account. Among other information, that data should include estimates of the military and civilian positions eliminated because of base closures and realignments. The data should also indicate the whereabouts of personnel whose positions were eliminated by closures and realignments--did they leave the federal workforce, fill vacancies in existing federal positions, or fill newly created positions?

Defining One-Time Costs and Savings

When the commission calculated its estimates of one-time costs and savings, it elected not to consider several elements of costs. The costs of environmental cleanup, for example, are not included because the commission assumed that DoD will eventually have to bear the costs whether or not the base is closed. On the other hand, at current levels of funding, it will be many years before all DoD bases are cleaned up. If cleanup efforts are accelerated as a result of closing bases, some people might consider these costs to be a result of the decision to close a base.

In addition, the commission does not address the costs of federal impact assistance, assuming that they would be negligible. Data for the nine bases analyzed in this report indicate that such costs are in fact relatively minor, but on average they approximated revenues from sales. If the commission projects revenues from sales as part of the savings to be gained, then it might be appropriate to project the costs of potential impact assistance. Including impact assistance could also significantly affect the timing of costs and savings, since historically federal impact assistance was required before revenues were received from sales.

Defining the Payback Period

The commission's charter--but not that of the legislation establishing the commission--states that the payback should be within six years of the "date of the completion of the closure or realignment of the base." It did not, however, define the "date of completion" more precisely. In our nine-base study, CBO defined the completion of a base closing as the date on which land was transferred from federal control. The numbers in our analysis--and the estimates for proposed closings made by the commission--suggest that payback will usually be achieved within just a few years. Nonetheless, the payback period could become an issue if one-time costs rise (for example, because some costs of environmental cleanup are included) or if one-time savings decline (perhaps because revenue from property sales is lower than expected). Therefore, the Congress may want to establish a more precise definition of the "date of completion."

CONCLUSION

In summary, CBO's analysis found that, for nine bases closed in the 1970s, recurring annual savings varied widely. Average savings (in 1989 dollars) ranged from a low of \$12 million per base to a high of \$23 million per base, depending on the assumptions used. The commission's estimate of \$23 million per base in average annual savings matched the high end of CBO's range. Because of missing historical data and differences in definitions, comparisons of the commission's estimates of one-time costs and payback periods with CBO's estimates for bases closed in the 1970s reveal no clear results.

Our analysis also suggests a need to define clearly the date of completion of a base closing if we are to be sure that the payback of one-time costs occurs within six years of that date. When estimating one-time costs, the Congress may also wish to consider including some costs omitted by the commission, such as those for federal impact assistance.

Finally, CBO's analysis of base closures in the 1970s highlighted a lack of information on the subject. For example, we could not determine how many civilian or military positions were actually eliminated because of base closures. Nor could we ascertain the added costs of military construction associated with relocating a base. Yet, factors such as these determine whether closing bases actually saves money and reduces the federal deficit. If this package of base closings and realignments is approved, the Congress might wish to mandate a closer monitoring of costs and savings associated with the package.