

Chapter 4: Eliminating Unneeded Infrastructure

The Department is encumbered with facilities we no longer need. These facilities drain resources that could otherwise be spent on modernization. To this end, we believe that a three-pronged strategy is required: close excess infrastructure; consolidate or restructure the operation of support activities; and, demolish unneeded buildings.

During the 1980s, American corporations from automobile and computer manufacturing to consumer retail reduced their plant and office space as part of their effort to reorganize, restructure and reform their business practices to stay competitive in the global marketplace. The Department needs to make similar infrastructure reductions.

Highlights - Eliminating Infrastructure

The Department must stop the drain on resources caused by excess Cold War infrastructure. That means:

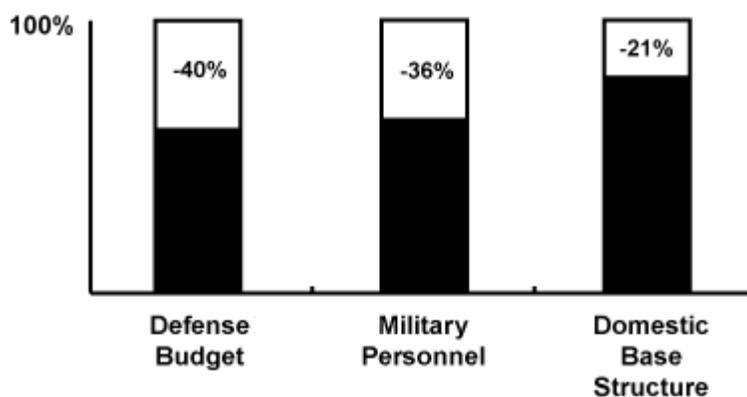
- DoD will seek congressional authorization for two additional rounds of BRAC in 2001 and 2005.
- DoD will consolidate, restructure and regionalize many of its support agencies to achieve economies of scale.
- DoD will seek permanent legislative authority to privatize family housing construction.
- By January 1, 2000, DoD will initiate privatization of all utility systems except those needed for unique security reasons or when privatization is uneconomical.
- Within six months the newly renamed Defense Energy Management Center shall outline a blueprint for three regional demonstrations of integrated energy management, to include supply and demand management.

Base Closure

During the post-Cold War military drawdown, DoD reduced both the Defense support structure and the force structure. But infrastructure reductions - including military bases, facilities, and buildings - have lagged behind force reductions. As shown in Figure 4a, force structure has fallen 32 percent since 1989 and will decline to 36 percent by 2003 as a result of the QDR. At the same time, after four rounds of base realignments and closures, our worldwide base structure has declined only 26 percent and domestic base structure has declined only 21 percent. This relative disparity between base structure and force reductions wastes limited resources on maintaining unneeded bases.

Figure 4a.

Relative Drawdown



We close bases for a number of important reasons - to reduce our annual operations and maintenance expenses, consolidate our forces, and improve readiness and modernization by directing more resources to forces rather than bases.

Since 1988, DoD has only closed bases after first going through a rigorous process generally referred to as Base Realignment and Closure (BRAC). This process was adopted by Congress to create a fair, timely, thorough, independent, and publicly open review of base closures, the recommendations of which must be accepted or rejected in whole first by the President, then by Congress (see box on BRAC).

BRAC - Making Base Closure Independent, Open & Fair

Efforts to close Department of Defense bases historically have met with a great deal of congressional concern about the well-being of local communities.

To address their concerns, Congress adopted legislation entrusting the process to an independent commission to develop and recommend an entire slate of closings and realignments. That slate could not be modified by the President or the Congress, but rather approved or disapproved in total. This "all or nothing" provision avoided individual deal making over proposed closings.

The BRAC process works as follows: DoD carefully evaluates and ranks each base according to the published criteria, which include military value, return on investment, environmental impact, and economic impact on the surrounding communities. The Secretary of Defense then recommends to the BRAC Commission bases for closure and realignment. The Commission reviews the DoD recommendations independently, holds public meetings, and presents its recommendations to the President. The Congress and the President must then either accept these recommendations in total, or reject the entire package.

By making the process as open and independent as possible, Congress and the Department have attempted to close the right facilities, conduct the process fairly, and reduce unnecessary defense expenditures. The Department does not, however, consider its role in the process to be limited to closing a base. By providing extensive assistance to communities to facilitate reuse, the Department seeks to help communities rebound, achieve economic growth, and even become more robust than before base closure.

In the previous four rounds of BRAC (1988, 1991, 1993, and 1995) the Department made substantial progress in eliminating unneeded infrastructure. These rounds involved the closure or realignment of 152 major installations and 235 smaller installations.

The Department will invest approximately \$23 billion to implement these recommendations - and will save approximately \$36.5 billion. FY 1996 was the crossover year in which annual BRAC savings exceeded costs - so we are saving money. Recurring savings after FY 2001 will amount to approximately \$5.5 billion each year. Costs and savings are detailed in Figure 4b.

Figure 4b.

BRAC Costs and Savings (\$ Billions)					
	Major Closures	Major Realignments	Costs (\$)	Savings by FY2001 (\$)	Annual Savings after FY 2001 (\$)
BRAC 88	16	4	2.8	6.5	0.7
BRAC 91	26	17	5.4	12.4	1.5
BRAC 93	28	12	7.9	11.5	2.0
BRAC 95	27	22	6.9	6.1	1.4
Total	97	55	23.0	36.5	5.6

While some have questioned our performance, independent experts have confirmed our savings. In 1997, the Congressional Budget Office reported that "DoD is carrying out BRAC procedures and decisions effectively," and further concluded that "BRAC actions will result in significant long-term savings." The future forces of the military will require steadily increasing investments for modern systems, new technologies, and new weaponry. To afford these investments, we must eliminate unneeded infrastructure.

Putting Bases to Productive Reuse

Communities are often concerned that a base closure may create dislocation, but our experience shows that after an initial adjustment, the closure often becomes an engine for economic growth. Across the country, base closure communities have found that their facilities are often very attractive sites to private sector businesses. The Department, along with other Federal agencies, has worked closely with communities to facilitate their reuse planning. We will maintain this commitment to economic revitalization as we move forward.

We provide grants and transition assistance to help communities plan for reuse. DoD awards an average of \$1 million (and up to as much as \$3.5 million) in planning grants to each base closure community. We are also streamlining the process for property transfer and environmental cleanup. As a result, BRAC 95 sites are closing in two-thirds the time it took to close BRAC 88 bases. Closing bases faster puts these properties back to work sooner, creating jobs more quickly and delivering more savings to DoD and to the taxpayer.

Most importantly, we are helping to create new civilian jobs. At those former bases which have been closed a year or more, the job-replacement rate has already reached 65 percent.

A number of success stories stand out. Pease Air Force Base in New Hampshire is now the Pease International Tradeport, employing 1,219 people at a brewery, a consular center, an airfield, and a steel manufacturer, among others - where only 400 civilians were employed when the base was active. The Sacramento Army Depot closed in 1994, with a loss of slightly over 3,000 federal jobs. It is now the home of Packard Bell which employs over 4,000 people. That number is expected to grow to 10,000 in three years. Ratoul, Illinois, has successfully brought in over 40 commercial and industrial tenants, providing over 2,200 new jobs at the former Chanute Air Force Base, where only 1,035 DoD civilians had been employed.

With good planning and appropriate support, communities can thrive in the wake of a local base closure.

SECDEF REFORM DECISION: DoD will seek congressional authorization for additional rounds of Base Realignment and Closure in 2001 and 2005.

Close Unneeded Bases

Despite progress with previous rounds, the Department still operates facilities that it no longer needs and cannot afford. Our analysis is based on comparisons of aggregate drawdown figures and specific force reductions. By comparing aircraft to air bases, ships to pier space, brigades to maneuver facilities, we know that we have too many bases. Eliminating this excess infrastructure and consolidating our forces at fewer bases would permit the Department to spend its resources more wisely on forces and equipment, which are critical to a ready and modern force. The QDR found that there is enough excess capacity in the Department's infrastructure to warrant two rounds of closure and realignment similar in size to those conducted in BRAC 93 and 95.

The two rounds would provide significant savings, as described in Figure 4c.

We will therefore submit to Congress a request for two additional rounds of BRAC, the first in FY 2001 and a second in FY 2005. The four-year interval between the two rounds provides the Military Departments with more time to implement any closure and realignment decisions. It will also enable DoD to better assist local communities put closed facilities to productive reuse.

Figure 4c.

**Estimated Future BRAC Savings
(\$ billions)**

	BRAC 2001	BRAC 2005
Total Investment to Closure	6.1	6.0
Gross Savings during Closure	8.6	5.9

Each round will provide \$1.4 billion in savings each year after closure is completed.
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Consolidation, Restructuring, and Regionalization

Many current DoD activities can be made significantly more efficient by consolidating or restructuring operations. It is relatively more expensive to operate and maintain many small facilities than it is to run a few number of larger ones. Prime candidates for consolidation are the Defense Information Systems Agency (DISA), Defense Finance and Accounting Service (DFAS), laboratories, and test & evaluation facilities. Demolition is related to consolidation, because only by divesting ourselves of buildings that are no longer needed can we fully accrue the benefits of limiting our number of facilities. Finally, regionalization of base support services provides another important avenue of reform.

DISA Megacenters

DISA provides common command, control and telecommunications services to DoD activities, including data processing, software development, and maintenance services. DISA is reducing information technology costs and eliminating excess facility capacity through a DoD-wide consolidation of data processing centers. DISA has already reduced the number of its facilities from 194 to 16. However, best industry practice indicates that further consolidation of data centers will reduce costs and position the Department to support common data processing requirements across the Services. The Secretary has directed DISA to further consolidate its current operations into six large facilities.

DFAS Operating Locations

DFAS was created to eliminate redundancy in financial accounting and bill paying activities throughout DoD by consolidating these functions into a single organization. DFAS will continue its efforts to consolidate and streamline its operations, standardize business practices, modernize support operations, improve customer service, and ensure the integrity of the Department's financial and accounting systems. DFAS has already reduced the number of its offices from 332 to 26. DFAS will now eliminate another eight facilities.

Labs/Test & Evaluation Facilities

Each of the Military Departments operates laboratories to develop military technology and test & evaluation facilities to demonstrate and validate the capabilities of new technologies and equipment. The performance and cost of these facilities can be improved through a combination of improved management, internal restructuring, and increased inter-Service support. The Secretary also has directed each of the Military Departments to review laboratories and test & evaluation facilities to identify restructuring opportunities.

Regionalization

In areas of heavy concentration of installations, we can save funds by sharing infrastructure and services across commands, bases, and the Services. For example, the Navy will regionalize many of its own activities at its fleet concentration centers - Norfolk, San Diego and Mayport. The Joint Staff is now analyzing regionalization across all Services in Hawaii.

Demolition of Excess Buildings

This past summer, the Services surveyed their installations and found that they no longer need 8,000 buildings totaling 50 million square feet. Disposing of these buildings will both cut costs and improve safety. We are increasing funding for demolition in order to be able to eliminate all these buildings by 2003. As our consolidation and restructuring initiatives are implemented, we will continue to look for

additional candidates.

Revitalizing Housing And Utilities With Private Sector Capital

Constrained budgets have forced DoD to make tough budget choices. Over a number of years, our infrastructure has deteriorated. Capital requirements for revitalization far exceed the funds available. Two particularly acute issues for the Department that affect the quality of life of our military personnel and their families and the operations of our bases are family housing and utilities. In both of these areas, Congress has provided us with the tools to leverage private sector resources and speed revitalization. Specifically, we can now convey houses and utilities to private sector entities who can invest their own resources to provide better services to our military communities.

Housing

Housing is a critical element of the quality of life of our military personnel and their families. Inadequate housing reduces our ability to retain our top-notch professional force and thereby affects our overall readiness. DoD already relies on the private sector to house about two-thirds of our military families. The other one-third live in some 300,000 DoD-owned housing units. Due to neglect over many years, approximately 200,000 of these units are below an acceptable standard. With our current and foreseeable housing budget, our traditional approach would require some 30 years and perhaps as much as \$20 billion to bring these houses up to an acceptable standard.

To address this problem, Congress recently provided the Department with important new authority to enter into arrangements with the private sector. Specifically, the Department can now provide direct loans and guarantees to private developers. We can convey or lease property and facilities to private firms in order to stimulate their own efforts in areas where we need housing. Private firms can now develop, build, finance, manage, maintain and own quality, affordable housing used by our service members. Using these new tools, we will be able to speed the revitalization and replacement of military housing. To implement the program, DoD created a Housing Revitalization Support Office (HRSO). Joint site teams composed of HRSO and Military Department personnel have visited more than 30 sites to determine the feasibility of privatization.

So far, we have awarded two projects, accounting for over 400 units at Naval Air Station Corpus Christi, Texas, and almost 200 units at Everett, Washington. We are in source selection for projects at Fort Carson, Colorado, and Lackland Air Force Base, Texas. We are developing proposals for housing at a number of other bases, including Robins Air Force Base in Georgia, Camp Pendleton in California, Marine Corps Logistics Base Albany in Georgia, and Fort Hood in Texas.

Over fifty other projects around the country are currently being reviewed for possible privatization. This new legislation contains a five year test period for the privatization initiative, which means that during that five years, DoD must request permanent legislative authority from Congress if the Department is to continue this program. Based on experience and lessons learned in the first two years of the program, the Department expects to privatize about 3,500 units by FY 1998, 15,000 units by FY 1999, and 30,000 units by FY 2000. In these next few years, as DoD continues to make strides toward privatization, we will request permanent legislative authority from Congress. With these new tools, we are seeking to eliminate all inadequate housing by 2010 - nearly two-thirds faster than otherwise possible.

SECDEF REFORM DECISION: Seek permanent legislative authority to privatize family

housing construction.

Figure 4d.

Improving Housing Through Privatization - Status

NAS Corpus Christi, TX	404 units	Navy	Project Awarded
NAVSTA Everett, WA	185 units	Navy	Project Awarded
Fort Carson, CO	2,600 units	Army	In Competition
Lackland AFB, TX	285 units	Air Force	In Competition
Camp Pendleton, CA	700 units	Marine Corps	Developing Proposals For Competition
MCLB Albany, GA	180 units	Marine Corps	
Robins AFB, GA	700 units	Air Force	
Fort Hood, TX	5,825 units	Army	

SECDEF REFORM DECISION: By January 1, 2000, the Department will privatize all utility systems (electric, water, waste water and natural gas) except those needed for unique security reasons or when privatization is uneconomical.

Utilities

Utilities provide a similar challenge. The Department's utility systems provide the electricity, water, steam, and sewers critical to the operation of our installations. Many of these systems are old and in need of significant repair. Here, too, the required funding exceeds the Department's current and anticipated resources. Local utilities and other entities, by contrast, do have the resources to invest in these systems and the expertise to maintain them appropriately.

For this reason, the Department is now embarking on an ambitious program to transfer ownership, operation, and maintenance of its utility systems, dependent on life-cycle economics and mission readiness. So far, 25 systems have already been privatized, and some 45 are in the process of privatization. Additionally, the Services have begun studies of an additional 150 systems, with some 500 remaining for review.

In the past, progress in privatizing utilities has been slow, because the Department was obligated to seek special approval from Congress for each transaction with the private sector. In an effort to speed the process and capture the benefits of privatization, the Department proposed and Congress recently approved broad-based authority to pursue utility privatization more expeditiously.

By shedding excess utility infrastructure, other benefits will also accrue to DoD. The Department spends over \$2.2 billion a year on energy facilities. This large buying power potentially gives us great leverage in the market. But we fail to take advantage of it because we are too busy managing power infrastructure rather than managing energy. One of the key lessons learned by industry in the last 20 years is that a business does not need to own or manage power infrastructure in order to manage energy. Indeed, managing the infrastructure often blinds managers to the true task, which is to minimize overall energy costs.

Figure 4e.

Privatizing Utilities - Current Project Status

	Electric	Water	Waste Water	Natural Gas
Privatized	4	2	5	14
Retained In House	9	10	9	4
Privatization In Progress	15	9	8	13
Under Study	45	44	42	16
To Be Studied	185	132	133	56
TOTAL	258	197	197	103

SECDEF REFORM DECISION: DoD should manage energy, not power infrastructure. The renamed Defense Energy Management Center shall outline in six months a blueprint for three regional demonstrations of integrated energy management, to include supply and demand management.

Too often the organizational subdivisions in the Department constitute insurmountable roadblocks in this area. An Air Force base and a Navy facility next door to each other are denied the opportunity of joint purchasing power because each installation is forced to operate inside Service channels. Yet energy is overwhelmingly a regional commodity. Opportunities to optimize the supply must be handled on a regional basis as opposed to an organizational basis.

In order to facilitate a revolution in business in this area, the Secretary has directed that the Defense Fuels Supply Center (renamed the Defense Energy Management Center) establish an "Enterprise Office" that will work with various installations in a geographical region to create wider management arrangements to maximize savings.

Conclusion

The need for the Department of Defense to rid itself of unneeded infrastructure in order to free up resources for future investment is a familiar Washington story of the past few years, and one that many are tired of hearing. Yet, rather than going away, it will in fact grow more urgent and compelling in the coming years.

We are weighed down by facilities that are too extensive for our needs, more expensive than we can afford and detrimental to the efficiency and effectiveness of our nation's Armed Forces. Equally tragic, we are losing opportunities to transition these facilities to more productive private and public uses at a time of relative national economic prosperity. We have learned much during recent years about how to best promote base reuse. While the transition is never easy, many communities have learned that the results can be positive, providing greater long-term economic growth and security.

At the same time, we must better manage key assets on our remaining bases, particularly housing and utilities. Providing quality housing is not only the right thing to do for our service members and their families, it is essential to attracting and retaining quality people to serve in our military forces.

The fastest and least expensive way to meet our housing needs is by taking advantage of opportunities

to work with the private sector. Likewise, we can better meet our utility needs by relying on the private sector for the infrastructure and focusing our managers on questions of use and cost.

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