

STATEMENT OF
REAR ADMIRAL MICHAEL SHELTON
DIRECTOR
FACILITIES AND ENGINEERING DIVISION
CHIEF OF NAVAL OPERATIONS
BEFORE THE
SENATE ARMED SERVICES COMMITTEE
READINESS AND MANAGEMENT SUPPORT SUBCOMMITTEE
HEARING ON
REAL PROPERTY MAINTENANCE
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Good afternoon. Mister Chairman and members of the Committee. I am Rear Admiral Michael Shelton, Director of the Facilities and Engineering Division on the staff of the Chief of Naval Operations. I appreciate the opportunity to speak to you today on the Navy's Real Property Maintenance (RPM) program and issues related to historic structures.

The focus of our RPM program has been to enhance readiness, improve the quality of life for our people, and reduce the cost of facilities ownership. Our numerous initiatives to stretch limited RPM resources have done little to reduce the magnitude of this challenge. Buildings and utilities systems throughout the Navy are outdated. The single largest portion (37%) of this infrastructure (over \$46 billion) was built between 1931 and 1950. The average age of our non-family housing, non-Naval Reserve force shore infrastructure is 44 years.

To compound the RPM challenge, military infrastructure accounts have historically been used as a bill payer. The net result is that we have not maintained our facilities at acceptable levels. A number of studies and organizations have recommended maintenance and repair funding of 2-4% of plant value. These include the American Public Works Association, Coopers and Lybrand, the Federal Facilities Council and the Building Research Board, to name a few. The 1989 DOD Report to Congress, "Renewing the Built Environment", indicated that the private sector invests more in facilities, particularly maintenance and repair, than the public sector. The report indicated that private sector investment to take care of existing facilities average 3.5% of plant value. Last fiscal year, the Navy invested only 1.9 % of plant replacement value (PRV).

Analysis of the Navy's Shore Based Readiness Reporting system (BASEREP) and our Annual Inspection Summary (AIS) reports, both mature systems refined over many years, also indicates a need for an increased investment in RPM and Military Construction while we reduce the size of the physical plant we are maintaining. Over 33% of the Navy's base readiness reports submitted by installation commanding officers reflect C3 and C4 readiness ratings due to facility condition (C3 defined as facilities have only marginally met the demands of the mission and C4

defined as facilities have not met the vital demands of the mission). The growing backlog of critical deficiencies not only reduces base readiness, but also diminishes the quality of our work spaces, further compounding morale and retention problems.

ASSESSING THE RPM FUNDING REQUIREMENT

During preparation of our Fiscal Year 01 budget submission, we linked facility condition and funding to readiness for the second consecutive year by utilizing the Fleet RPM Readiness Condition Criteria to assess our RPM requirements. This assessment methodology, which is based on criteria similar to that used in our BASEREP, augments current AIS and BASEREP data with projected RPM requirements and readiness levels over the entire Future Years Defense Plan (FYDP). Based on various condition assessments, the total current and projected maintenance and repair requirement is developed for each type of facility and programmed for each year of the FYDP. The requirements are then assessed and categorized in terms of the readiness condition criteria to develop the C1-C3 required funding levels for each major type of facility. This RPM requirements data, which is comprised of field level input submitted by installation commanders via their Major Claimants, further substantiated the need for additional funding to reduce the backlog and improve the condition of the Navy's shore infrastructure.

RPM FUNDING AND IMPACT ON BACKLOG

Based on our projected RPM assessment, the Navy developed a strategy to fund mission critical infrastructure, including utilities, bachelor quarters, and waterfront, airfield, and training facilities, to C2 readiness, with all other categories of facilities funded to C3 readiness. Our goal is to eliminate critical backlog in bachelor quarters by the end of FY04 and arrest the growth of

critical backlog for all other facility categories. The critical backlog represents those deficiencies that are firm, non-deferrable requirements of the installation, including environmental, safety, quality-of-life and mission related concerns. Given our current inventory, RPM funding of 2.1% of plant replacement value or approximately \$1.3 billion per year is required to arrest the growth in the Navy's critical backlog of maintenance and sustain the physical plant at its current condition. The Congressional adds to Navy RPM contained in the DoD Appropriations Bill will enabled us to boost facility investment to 1.9% of PRV in FY00. We are optimistic that our FY-01 budget will build upon this progress, and project our current \$2.5 billion backlog of critical deficiencies to arrest at \$2.6 billion in FY03 and begin declining. We also realize that with a fixed top line, the RPM program will continue to be a balancing account for higher priority readiness programs like warfare modernization.

MAINTENANCE OF HISTORIC PROPERTIES

The Navy currently maintains 4,581 historic structures. Of these, 544 are housing units totaling 1,638,000 square feet. We manage historic facilities in much the same manner as our other properties, but they do pose particular challenges because of their intrinsic historic and cultural value. Historic facilities are generally more expensive to maintain; however, these costs are not directly tied to the structures' eligibility for listing in the National Register of Historic Places (i.e. significance).

Several conditions cause the higher than average maintenance costs: (1) historic housing units are generally significantly larger than contemporary units; (2) the structures are older than contemporary units and their maintenance requirements are more sophisticated; and, (3) building

materials for historic housing units can be more expensive than those materials commonly used for contemporary housing units. However, these building materials have a much longer life than some modern materials and, therefore, their higher initial cost can result in lower life cycle costs.

To properly manage these structures, and ensure compliance with the National Historic Preservation Act, we are preparing Integrated Cultural Resource Management Plans (ICRMP's) at each of our installations. These plans will identify historic structures on the installation and discuss any impacts on the structures by activity or development on the installation. In addition, the plans will discuss the level of attention our historic structures will require to assist in the maintenance budgeting and planning process. We will consult with State Historic Preservation Officials and incorporate their recommendations as appropriate.

PROGRAMS TO ELIMINATE EXCESS STRUCTURES

The Navy has been emphasizing demolition as part of its RPM program since 1996. Prior to 1996, demolition of excess facilities was primarily funded by the Major Claimants or included in our regular Military Construction program. With the focus on operational requirements, funding for demolition was not sufficient to make any appreciable impact on the growing requirement. For this reason, a centralized demolition program was established in 1996. This program has provided an increased emphasis on disposal of excess and obsolete facilities in the Navy inventory. In the first four years, the Navy has spent \$89M to demolish over 997 facilities, accounting for approximately 6.9 million square feet. Our near term goal is to have demolished nearly 10 million square feet by the end of FY02. In FY00, we plan to dispose of another 2 million square feet of excess inventory. In addition, our replacement MCON projects include

demolition of facilities being replaced.

The Navy is committed to the centralized demolition program. Through continued emphasis and support, we will eliminate excess facilities, reduce infrastructure costs and improve base appearance.

POLICY INITIATIVES

UTILITIES PRIVATIZATION

We need modern, reliable utility systems for our bases, some of which date back to the 19th century. Our power and utility requirements have grown exponentially since then. At some installations, we have outdated, outmoded electrical systems that are costly to operate and repair. Unscheduled outages and limited capacity impact our ability to train and maintain the fleet. Defense Reform Initiative Directive #49 requires that we consider privatizing all of our utility systems where economically feasible and where there are no security concerns. Privatization will ensure that adequate resources are applied to the maintenance of these systems. Necessary capital investments are amortized over a period of years and become part of the consumption rate along with the cost of operations and maintenance. While there continues to be debate regarding the potential savings to be realized through utility privatization, we remain hopeful that utility providers will see economic opportunity in the Navy's systems and that such opportunity will be reflected in reduced utility expenses. However, as we move forward in determining which systems to privatize, we must continue to ensure that we dedicate adequate operations and maintenance funds to maintain reliable utility systems.

CLAIMANT CONSOLIDATION

Another effort that we feel will produce infrastructure cost savings is the Claimant

Consolidation/Regionalization of Base Operating Support (BOS). Last October, the Navy consolidated the number of major commands with BOS responsibilities from 18 to 8 Installation Management Claimants (IMC's). These 8 IMC's will own the Navy's shore infrastructure and be responsible for allocation of BOS funding to shore activities and prioritization of MCON projects within their claimancy. Under these IMC's, Navy Concentration Areas (NCA's) have been identified and Regional Commanders have been assigned to manage all functions and missions within the NCA. Consolidation of bases into a region under the control of a single Regional Commander will allow us eliminate redundant functions, take advantage of resources at other installations and in the private sector, and optimize operations and services.

REGIONAL PLANNING

Regional planning is a new initiative implemented by the Chief of Naval Operations to institute comprehensive facilities planning within the new regions we have established. This initiative requires the 8 IMC's to provide a vision, consistent with the Navy's overall vision for the shore establishment, for their specific areas of responsibility and to work closely with their Regional Commanders to identify required facilities and acquisition strategies for achieving this vision. Regional Shore Infrastructure Plans (RSIP's) will be developed taking into account the requirements for the entire region and then determining how to satisfy them regionally. To do so, the entire inventory of facilities available within a region as well as those available in adjacent communities will be examined to determine how we can optimize facilities and satisfy mission requirements. The RSIP's will identify land and facility alternatives and recommendations regarding acquisition, use, maintenance, and disposal, which will facilitate decision making by the Regional Commander and the IMC. We expect these RSIP's to generate projects which, when programmed and executed, will modernize shore infrastructure, improve efficiency, and reduce costs of operating the Navy's shore establishment.

MODERNIZATION STUDIES

Two years ago the Navy embarked on a study to assess the overall condition of our critical waterfront and airfields facilities. Well over two-thirds of our piers were constructed during World War II. These piers no longer have the structural or power capacity to service our most modern ships. The study indicated that by the year 2010, only 20 percent of our existing piers & wharves would adequately support the new Fleet. As we continue to modernize the fleet, we must also modernize and upgrade our berthing piers. We have already begun funding this modernization program as one of the "core elements" of the infrastructure with several major pier projects at our major ship homeports of Norfolk, San Diego, and Pearl Harbor in the MCON budget over the past two years. The airfield modernization has also begun with modest investments in control towers, aircraft maintenance facilities, and airfield pavements in the MCON program.

Mister Chairman this concludes my statement. I appreciate the support that this Committee and its staff have given us in the past, and look forward to working closely with you in the future. I would be pleased to answer any questions you or any other members of the Committee may have.