STATEMENT OF

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BEFORE THE SUBCOMMITTEE ON
READINESS AND MANAGEMENT SUPPORT
OF THE SENATE ARMED SERVICES COMMITTEE

March 10, 2000

Introduction

Mr. Chairman and distinguished members of this Subcommittee, thank you for the opportunity to discuss the Department of Defense's fiscal year 2001 programs for military installations and facilities. I look forward to working with you to ensure that our military installations and facilities are considered an integral component of readiness and continue to support America's military superiority.

Sustaining the Foundation

Our fiscal year 2001 budgets for military facilities and family housing support the Department's obligation to acquire and maintain the right quantity of quality facilities vital to supporting our changing missions and readiness. Our military installations and facilities must be sound to keep America's defense strong and enhance the quality of life for our military members and their families. Installations are platforms from which our forces successfully execute their diverse strategies and missions. But, it is important to remember they are also where our forces live, work and become members of the local communities. The Department's military construction, real property maintenance and base operating support programs must ensure we do not undermine or compromise readiness and missions but also that we continue to support quality of life for our members.

Improving Quality of Life: Housing/Barracks

Secretary Cohen recently testified before Congress, and stated that it is his priority to improve the support to our men and women in uniform, their families and our civilian workforce.

To that end, he has established and funded a major 3-pronged initiative to improve military housing, which includes the following components: increasing housing allowances to eliminate the out-of-pocket costs being paid by Service members for off base housing in the United States; increasing reliance upon the private sector through privatization; and maintaining military construction.

The Secretary's initiative increases the DoD program for housing allowances by over $3 billion over the next five years. This funding will enable us to gradually increase housing allowances, providing the Service member with more money to pay for housing. Consequently, average out-of-pocket costs will be lowered from 18.8 percent this year to 15 percent next year, and will be eliminated completely by 2005. The initiative continues the major improvements in compensation for Service members. It also further strengthens ongoing efforts to eliminate DoD's inadequate on-base family housing by 2010 and barracks for single members by 2008 through the increased use of privatization as well as traditional military construction.

The Secretary's initiative will benefit all Service members and improve their quality of life in three significant ways:

1. Higher allowances will help members who live off base to afford good quality housing. Both the quality and availability of their off-base housing options will immediately increase. By 2005, the typical member living off-base will have no out-of-pocket housing expenses – the same as their counterparts living in government quarters on base.

2. Higher allowances will increase and enhance housing privatization, further improving Service member access to quality housing. In these programs, private developers provide and maintain housing for Service members, who pay rent based on their particular housing allowance. Improved allowances will increase the income available to private sector developers, facilitating increases in the quantity and quality of privatized housing. The Department will continue to review and encourage continued housing privatization projects by each Service.
3. The combination of increased allowances and expanded use of privatization will permit more efficient use of current military construction funding. Increased availability of quality private sector options will relieve pressure on on-base housing, reduce the need to maintain older, high cost units, and allow resources to be devoted to improving and maintaining needed on-base housing.

Several years ago, the Department directed the Services to program resources to eliminate the worst barracks conditions that our single service members endure - permanent party gang latrine barracks - no later than fiscal year 2008. The fiscal year 2001 budget is focused on achieving this goal. The Army, Navy and Marine Corps now report that they have programmed sufficient funds to eliminate gang latrine barracks by fiscal year 2008. The Air Force bought out its last gang latrine with their fiscal year 1999 program. The Marine Corps will achieve this goal by 2005. While still committed to the 1+1 design standard, the Navy is looking at ways to address one of its most pressing quality of life challenges...the large population of enlisted sailors who now live aboard ship when in homeport. The Navy is developing a Homeport Ashore program that will provide these sailors accommodations, either in a Bachelor Enlisted Quarters (BEQ) or in the community. The Navy is already trying this program at Pearl Harbor. The Navy was granted an interim waiver to construct its FY 2001 BEQ projects to a "2+0" standard as a first step to in providing housing ashore for Sailors now required to live aboard ship while in homeport. The Marine Corps continues to build to the 2+0 standard as a means of fostering teambuilding and unit cohesion.

Privatizing Family Housing

This year we are requesting that Congress amend section 2885 of title 10, United States Code, to extend the Military Housing Privatization Initiative pilot program for an additional five years. In the first four years of the program, the Department made significant progress in determining how to financially and logistically make this program work. However, in terms of implementing specific projects, we are just getting started. Our housing privatization initiative has progressed considerably over the last year. We believe we will be able to reach our goal of privatizing at least 19,000 housing units by the end of FY 2000 and thousands more throughout the next five years if Congress extends the privatization authorities. Although the Department does not believe it has learned enough to justify a request for permanent authority at this time, we believe it is important to request an extension on our temporary authority to fully realize the benefits these authorities offer. An extension will give the private sector confidence in the future of the program so that they will continue to work with us in our effort to quickly provide quality, affordable housing to our service members and their families.

I firmly believe these private sector tools are critical to providing quality housing over the long haul. Continued privatization will provide important leveraging of private sector capital, further stretching our scarce military construction dollars. This will significantly contribute toward meeting our goal of revitalizing or divesting our inadequate housing by 2010, using both traditional MilCon and privatization authorities.

In addition to requesting an extension of the housing privatization authorities, we are requesting related legislation that would amend section 2872 of title 10, United States Code by inserting a new subsection permitting a Service to credit any reimbursements received by the Service from the owner of the privatization project for utilities or other services provided by the military bases into the account from which the utilities or services were funded, rather than into the general treasury. This will correct an existing disincentive to privatize at the installation level.

ENERGY MANAGEMENT AND UTILITIES PRIVATIZATION

The Department has undertaken an integrated program to optimize the management of its energy use and utility systems—seeking to increase efficiency and reduce costs while improving reliability and safety. This program has three elements: (1) reducing energy and water consumption; (2) taking advantage of deregulated energy commodity markets; and (3) privatizing the utilities infrastructure.

Conserving energy is important to the Department, because it saves money and also reduces greenhouse gas emissions harmful to the environment. In fiscal year 1999, DoD spent over $2.2 billion to buy energy for its installations, consuming over 250 trillion BTUs. Our energy use per square foot in buildings continues to decrease—down almost 20 percent since 1985. We are well on the way towards meeting the President's year 2010 energy reduction goal of 35 percent and plan to use a balanced program of appropriated funding and private-sector investment to continue our progress.

The fiscal year 2001 budget contains $34 million for the Energy Conservation Investment Program (ECIP) to install energy savings measures in our existing facilities. Historically, ECIP project selection was based primarily on cost savings-to-investment ratio (SIR). However, we discovered that many of these projects also were excellent candidates for private-sector investment.

We are therefore changing program focus from saving money to saving energy. The priority for ECIP project funding will shift from projects with the highest SIR to projects with large energy savings that typically could not compete for funding, because they required substantial up-front capital investments with long payback periods. We have designated fiscal year 2001 as a transition year for ECIP, so that we can execute the projects that were designed for the fiscal year 2000 program cut by Congress and begin the design of projects that meet the new selection criteria.

In fiscal year 1999, the Department greatly increased the use of Energy Savings Performance Contracts (ESPCs) and utility incentive agreements—saving nearly 1.7 trillion BTUs per year—more than doubling the energy savings obtained the previous year. In excess of $6 billion in ESPC investment capacity is now available to DoD installations as a result of indefinite-delivery contracts developed by the Military Departments and a memorandum of agreement between the Defense Energy Support Center (DESC) and the Department of Energy.

DoD is also constructing energy efficient buildings. The Department is employing the principles of "sustainable design" to ensure its new facilities minimize the use of resources and reduce harmful effects on the environment. These buildings will use innovative technologies to reduce energy and water consumption, decrease waste products and increase the recyclable content of construction materials, while creating livable, and more healthy and productive surroundings for the occupants. DoD was instrumental in developing a "Whole Building Design Guide" available to all design professionals, both in government and the private-sector. This intuitive, internet-based tool serves as a portal to the design criteria and other resources needed to construct cost-effective, sustainable buildings.

In order to lower its energy bills, the Department intends to take maximum advantage of electricity rate restructuring. Where practicable we will bundle regionally the diverse loads of DoD installations to create greater buying power. We have already achieved some success in this area.

Power contracts awarded by DESC in California, Pennsylvania and New Jersey, bundled regionally the loads of installations from all of the Military Services and some other Federal agencies to obtain the best rates possible.

The Department continues its efforts to privatize its utility systems using authority granted by Congress in section 2688 of title 10 United States Code. The sooner we get out of the business of running utilities systems and turn them over to private or public-sector professionals, the sooner we can focus the attention we dedicate to them on our core missions. The scope of the task is daunting with over 1,500 systems remaining to be transferred by September 2003, especially considering that privatization is not without its institutional obstacles. However, we are confident that we will be able to overcome these obstacles by working with our partners in the other Federal agencies.

We are enhancing utilities privatization program performance by developing policy to improve consistency of the economic feasibility analyses and key contract provisions. Additionally, we are planning to conduct between two to five pilots to mitigate less than optimal results. These pilots would demonstrate all or some of the following: (1) integrate utility system privatization with energy conservation and rate restructuring, (2) conduct joint cross-Servicing and regionalization, and (3) include telecommunications.

The Department believes that its energy management and utilities privatization programs will allow tomorrow's installation commanders to better support the missions of the Services' operational commands. The partnerships we develop with private industry through ESPCs, utility incentives and utilities privatization will provide the necessary expertise and investment capital to make continuous, incremental improvements to our utility infrastructure and increase its reliability and efficiency.

Outleasing Underutilized Property

The Department continues to seek ways to meet its unfunded military construction and operations and maintenance requirements. One method under consideration concerns the better utilization of fallow assets, both land and buildings. The challenge is to determine if DoD can realize the unused economic value of its real property to fund facility maintenance and revitalization. To that end, the Department performed a formal review of ways to enhance the efficiency and readiness of DoD facilities by actively marketing unused and underutilized, non-excess, real property to the private sector.

In accordance with Section 2814 of the fiscal year 1999 National Defense Authorization Act, the Department assessed efforts to identify non-excess property and surplus capacity for lease, the pros and cons of leasing such property and surplus capacity on military installations. Last year we submitted an Air Force proposal to generate base-level efficiencies at Brooks Air Force Base, Texas, and a Navy proposal for commercial development of Ford Island, Hawaii. Your Committee was instrumental in the successful passage of these pieces of legislation and we thank you for supporting our efforts.

This year, we are submitting legislation recommending four modest adjustments to Section 2667 of title 10, United States Code, the current authority we have to out-lease property. The changes: 1) give the Department authority to indemnify lessees of real property against liability if contamination is discovered on leased property that was a result of military activities prior to the lease period; 2) authorize the receipt of in-kind consideration at any military installation such as maintenance, repair or improvement or restoration of any property; construction of new facilities; and base operating support; 3) authorize lease revenues to be applied to facility related requirements without additional appropriation; and 4) authorize military departments to use the cash proceeds from lease for construction or renovation of its infrastructure and facilities subject to congressional authorization (10 U.S.C. 2802) of specific projects.

This new legislative authority could also provide a vehicle to help the Department better address the cost of renovation and upkeep of its ever increasing stock of historic structures, including historic housing.

Currently, DoD has a modest number of real estate leases that generate an annual income of over $22 million in both cash and in-kind services. This represents approximately one third of one percent of the Department's annual $6 billion facilities capital improvement requirement. With increased emphasis, the Department could expect to realize, on average, a tenfold increase in cash and in-kind services within five years.

Demolishing Excess and Obsolete Facilities

Installation commanders have repeatedly reported that they often are forced to divert scarce resources to operate and maintain obsolete and excess structures. Such O&M costs come at the expense of more important requirements, and could be avoided by investing in the demolition and disposal of these excess facilities. In 1997, the Military Services surveyed their installations and identified over 80 million square feet of buildings, including more than 8,300 individual structures, which could be demolished in the near term.

In May 1998, Secretary Cohen directed the Military Services to fund the elimination of the 80 million square feet by 2003. In fiscal year 1999, the Department eliminated over fourteen million square feet, exceeding the fiscal year 1999 goal of thirteen million. After completing two years of this six-year initiative, DoD is 5.9 million square feet ahead of its plan and has achieved 38 percent of its long-term goal. In addition to buildings (square footage), the Services and Defense

Agencies are demolishing selected non-building facilities (non-square footage) from the inventory. Examples include obsolete communication towers and storage tanks. Based on the FY 1998-1999 results and planned funding, the demolition initiative is on track to achieve the Defense Reform goal. At the same time, DoD continues to identify additional excess facilities with an eye on further savings.

Realigning Overseas Bases

To date, the Secretary of Defense has announced his intention to return or reduce operations at 986 overseas sites. Since 1990, the result is a 59 percent reduction in our infrastructure overseas, a 65 percent reduction in Europe. The Department has established the European theater enduring force structure at about 100,000 personnel and a Pacific theater enduring force structure of about 100,000. We have completed the majority of our planned overseas realignment actions to match the remaining overseas sites with the remaining forward deployed forces. Only minor infrastructure adjustments are anticipated in the future.

Our remaining overseas facilities are essential. It is imperative that we provide a high quality of life for our forces and families stationed overseas. Our people experienced a great deal of turbulence as the force and base structures contracted. On top of that, our overseas forces deploy frequently, adding further stress to families left in foreign countries. We are concentrating on the appropriate facilities, readiness, operational capability, quality of life and modernization for the remaining forces that protect our national security interests in those regions. We need your support to repair, maintain and build the infrastructure that will guarantee our economic and national security.

Our negotiators continue to press for compensation for the residual value of U. S. funded improvements returned to the host nations. Since 1989, the Department has realized monetary compensation from host governments of about $178 million, plus approximately $794.5 million worth of construction to support our remaining forward-deployed forces.

I want to emphasize that the Status of Forces Agreement with Germany, for example, recognizes that government's obligation to compensate the U.S. funded improvements that have reuse capability. However, the U.S. holds no claim to the land and many of the facilities must be demolished prior to any reuse. For these reasons, it is unrealistic to expect compensation from returned overseas facilities would reflect anything near our original investment in those facilities. Also, GAO, in their January 1996 report on "Overseas Installations: Efforts to Recoup the Residual Value of Closed Facilities" stated "…it may be unrealistic to expect DOD to recover amounts near the value of its investment in the facilities returned."

Reshaping the Installation Infrastructure

The Department is committed to reshaping the structure of its installations. Implementing two more rounds of base realignments and closures (BRAC) will eliminate more excess infrastructure and focus scarce defense dollars on weapons' modernization, quality of life and other interests vital to a strong national defense. Yet BRAC is much more than an excess property disposal exercise. It is an integral and inextricable part our readiness and modernization plans as we "right-size" and reshape our installations to match changing military mission requirements.

Furthermore, BRAC is only one initiative in a multi-part strategy to reshape the DoD base structure. Other important initiatives involve privatization of housing and utilities, out-leasing of underutilized non-excess real property and facilities, competitive sourcing of non-inherently governmental functions, demolition of unnecessary facilities and improved standards and conditions for critical facilities, such as barracks or dormitories. The Department must be able to pursue all of these initiatives because they complement each other. No single initiative, or set of initiatives, can substitute for another.

Adding New BRAC Authority

However, authority for additional BRAC rounds is a key component of our strategy. We continue to maintain excess base capacity. Money wasted maintaining that excess capacity, which could be saved from two future BRAC rounds, can be better spent on our forces. Our 36 percent force structure reduction since the end of the cold war has not been offset by an appropriate reduction in our domestic base capacity, which has only been reduced 21 percent through the four previous BRAC rounds. We have determined that two future BRAC rounds in 2003 and 2005 are required to address the excess problem and reshape our infrastructure to match the force structure of the future. These two new rounds could also generate over $3 billion in annual recurring savings starting at the end of the implementation period. Those funds, together with the accumulated net savings up to that point, will go a long way toward supporting our changing force structure.

We need to ensure that we have the resources available to meet our future needs. Absent BRAC authority, we would need to identify other potential sources of funding, whether they be further cuts in infrastructure (leading to a further deterioration in quality of life), further cuts in force structure, or reductions in training and readiness.

Each of the major Defense Reform Initiative (DRI) efforts - reorganization, civilian reductions, consolidations, outsourcing and BRAC – supports aligning our base structure to meet changing mission requirements and support operations. Some will generate savings or revenue. We expect outleasing of underutilized property to provide, on average within five years, approximately $200 million per year and BRAC to save over $3 billion a year. None will achieve needed reforms alone; each contributes to the effectiveness of the others. Without BRAC, the effectiveness of other reforms will be diminished. Congressional elimination of the uncertainty of future BRAC rounds as soon as possible will permit us to plan on how to use this tool as part of our overall DRI implementation strategy.

Requesting Military Construction

For fiscal year 2001, we are requesting a program of $8 billion for military construction. This includes $2.8 billion for nearly 300 construction projects at more than 200 locations, $1.2 billion to implement prior rounds of base realignments and closures, $0.2 billion for the NATO security investment program, $0.4 billion for planning, design and minor construction, $2.7 billion to operate and maintain family housing, and $0.7 billion to build new or improve existing family housing.

Comparison of Fiscal Year 2000 and 2001 Military Construction
(President's Budget - $ in millions)

	FY 2000 Program Value	**FY 2001 Request**
Military Construction	3,669.9	3,379.1
BRAC	1,283.2	1,174.4
Family Housing	3,546.2	3,480.5
Total Program	8,499.3	8,033.9

Defense Wide Construction: The military construction request for Defense Agencies totals $785 million. It includes:

- $33.6 million for the Energy Conservation Investment Program that will add energy conservation equipment and improvements to existing facilities. This will save additional energy and benefit the environment.
- $178 million for 13 projects for Defense Medical Facilities. One project will continue the hospital replacement project at Fort Wainwright, Alaska authorized in FY 2000. Another project will construct a veterinary treatment facility and the remaining 11 projects will add

to or alter existing medical/dental clinics, construct a new one and upgrade facilities to current life safety requirements.

- $190 million for 17 projects for the Defense Logistics Agency. Four projects will upgrade hydrant fuel systems, either through replacing existing failing or undersized hydrants or by adding new hydrants for increased capacity. Another project will construct a central public safety facility to consolidate base fire, police, security and health and safety missions and there is also a project for a child development center. The remaining projects will provide fuel storage facilities at various bases so they meet environmental standards.
- $71 million for 15 projects for Special Operations command to construct such projects as a corrosion control facility, hot cargo pad, flight simulator facility, air operations facility and equipment maintenance complexes.
- $451.1 million in authorization and $85 million in appropriation for National Missile Defense (NMD) construction. The NMD MilCon program was planned and programmed to meet the initial operational capability (IOC) date of FY 2005. To meet the IOC, construction must start in FY 2001.
- $17.4 million for unspecified minor construction, $78.6 million for planning and design and $216.4 million for construction projects for other Agencies.

Family Housing and Barracks Construction and Operations: The $4.2 billion the Department is requesting for family housing and barracks supports the high priority that the Secretary places on quality housing. Our military members deserve no less. Of that amount, $2.7 billion would pay for the operations and maintenance of approximately 300,000 family housing units in fiscal year 2001. In addition, the Department's military construction program includes approximately $748 million in fiscal year 2001 to construct, replace or refurbish approximately 6,000 family housing units; and

$713 million for 41 projects to construct or renovate inadequate barracks and provide 12,000 new or improved unaccompanied living spaces as well as construction of a dining hall and a recruit barracks.

We are requesting legislation that would revise section 2826 of title 10 United States Code to eliminate the limitations on space by grade and the number of bedrooms for the construction, acquisition and improvement of military family housing. Section 2815 of the National Defense Authorization Act for Fiscal Year 1996 originally amended section 2826 by adding a new subsection (i), that authorizes the Secretary of a Military Department to waive the provisions of 2826(a) with respect to military family housing constructed, acquired, or improved during the five-year period beginning on February 10, 1996. The proposed revision would impose a community based standard for room patterns and floor areas so that on-base housing could be built to private sector standards, comparable to that built in the local community for families with similar income levels. The existing limitations have been in place for many years and are inconsistent with the current housing constructed in the private sector. The imposition of an artificial military size specification prevents DoD from taking advantage of the off-the-shelf designs that builders routinely use for their private sector work. In all areas of acquisition, DoD is trying to increase its utilization of commercial specifications and military housing construction should not be an exception. To do otherwise prevents DoD from taking advantage of private sector economies of scale and requires DoD to expend unnecessary planning, design and construction resources to substitute its own specifications for those already existing in the private sector that should be otherwise acceptable. Congress previously recognized the drawbacks of these limitations by granting a five-year waiver to these limitations in 1996. This legislative proposal would institutionalize the Congressional intent to take advantage of private sector efficiencies.

Contingency Funding: Military construction projects typically include contingency funds to address problems that arise due to mission changes, unexpected site conditions, design changes or other unexpected changes. The Department's FY 2001 budget eliminated the contingency factor for all military and family housing construction in FY 2001 and beyond. The decision was based on several factors. One is the perception that potentially 20% of the project growth is used to fund project upgrades, not contingencies. Also, prior year balances have been used to partially fund current year projects suggesting a lack of need for contingency funds. While we do not expect this reduction to cause the cancellation or delay of authorized construction projects, there is an increased risk that the reduction will compromise the Services' ability to maintain full authorized project scope and high construction standards.

Complete Implementation of Prior BRAC Rounds: We currently estimate that the four previous BRAC rounds will save approximately $15 billion by 2001, after offset of one time implementation costs, and generate an estimated $6.1 billion in annual recurring savings thereafter. The fiscal year 2001 budget requests $1.2 billion in BRAC appropriations. Approximately $13 million is for military construction projects. Over 70% is for environmental cleanup and the balance will support operations and maintenance costs.

Overseas Construction: The fiscal year 2001 budget for military construction at overseas bases is $680 million for regular construction, including the U.S. contribution to the NATO Security Investment Program of $190 million, and another $21.8 million for family housing new construction and improvements. About $245 million in projects support quality of life issues such as child development centers, family housing, enlisted barracks, school facilities and medical/dental facility upgrades. The remaining projects are operational or support facilities.

NATO Security Investment Program: The request for the NATO Security Investment Program (NSIP) is $178 million and for NATO Enlargement is $12 million. The Department also anticipates recoupments of approximately $11 million, bringing the anticipated NATO program to $201 million for FY 2001.

NATO strategy has shifted from a forward deployed, static defensive posture, to one that is mobile, flexible and responsive to a wide range of contingencies, such as the mission in Bosnia-Herzegovina and Kosovo. The investment program that supports NATO has been restructured accordingly.

Over the last few years, the Department has invested over $1 billion in the NATO Security Investment Program. While these funds are included in the military construction program, they are used not only for facilities, but also vital command and control systems that are currently in need of a major modernization and reorientation to support the new Alliance strategy. U.S. industry has received more than $1.7 billion in NATO command and control equipment contracts and over $100 million in facility construction contracts over the last few years.

NSIP also supports enlargement of the Alliance as a practical expression of U.S. military and political commitment to successfully integrate former adversaries into the family of western democracies. Now that the Alliance has agreed to enlargement, the NSIP will play a central role in consolidating NATO's collective defense capability. The anticipated U.S. contribution to cover the cost of enlargement is $12 million in fiscal year 2001.

Facilities Sustainment (Maintenance and Repair)

Maintenance and repair funds are vital to sustaining, or protecting our investment in, facilities currently valued at about $600 billion, a significant portion of which is supported by operations and maintenance funding. Lack of proper maintenance and timely repairs leads to facility failures that jeopardize military missions and readiness, and causes expensive renovations in the future. Proper maintenance and repair saves money in the long run by preventing deterioration that often results in wasted utilities and emergency fixes, and by avoiding costly and frequently disruptive repairs. Further, maintenance and repair helps ensure an environment of enhanced worker safety. Keeping facilities operational enables them to contribute to high mission capability. A modern, well kept maintenance shop will reduce downtime for a tank or an airplane, and enable such weapon systems to continue operating at a fraction of the cost of buying additional weapons.

For fiscal year 2001, the Department is requesting approximately $5.4 billion for RPM and $180 million for demolition. Despite Congressional support, the Department's RPM requirements will continue to exceed requested resources. The following table shows the Department's FY 2001 Budget Request for RPM in $ billion.

Department	RPM	Demolition		Total
Air Force	1.67 B	0.04 B		$1.71 B
Army	1.65 B	0.10 B		$1.75 B
Navy	1.23 B	0.04 B		$1.27 B
Marine Corps	0.47 B			$0.47 B
Defense-Wide	0.38 B			$0.38 B
TOTAL	**5.39 B**	**0.18 B**		**$5.57 B**

Getting the most from maintenance and repair funds requires the Department to manage its facilities in the most effective manner and eliminate unneeded facilities. One option that has been proposed, fencing or creating a floor for RPM funds, is not the answer. The Military Services need the flexibility to respond to emerging operational requirements.

The Department is moving toward more identification and visibility of the true RPM requirement so the consequences of budget decisions are fully known to decision-makers. The importance of RPM to readiness and the need for proper facility maintenance and repair are clear. The key question we ask ourselves each and every year is how many resources are required for this function? What is the true requirement? This identification and visibility will help decision-makers make informed choices when balancing RPM against other programs.

Improved Real Property Management

The Department is actively pursuing several important initiatives to improve its ability to manage its real property effectively and economically.

Facility Strategic Plan: In the past, the Department lacked a consolidated long-range plan for its facilities, instead often relying on stand-alone programs oriented around specific appropriations, military services, facility types or locations. To improve this situation, we created an initial Defense Facilities Strategic Plan as well as a process for reviewing and renewing the plan regularly. We formed an inter-Departmental working group to develop the plan and we use the Installations Policy Board for review and oversight. We are striving to establish a process where plans, programs and initiatives are integrated with a DoD vision, mission, goals, tools, resources and metrics.

Installations Policy Board (IPB): The IPB, which I chair, is comprised of senior leadership from the Services' secretariats and engineer staffs, as well as from key OSD organizations. The IPB is a deliberating body though which important issues affecting installations are debated, and Department-wide guidance, policies, and decisions are made. It is instrumental in developing new initiatives and enhancing joint efforts within the Department. Further, by reviewing programming and budgeting implications, it has become an advocate for properly resourcing installations and facilities. The IPB supports a number of cross-service programs, including initiatives to eliminate excess facilities, privatize housing and utility systems, strategically source base services and implement a report on installation readiness. Meeting on a monthly basis, the IPB is proving to be a valuable forum for addressing significant issues affecting Defense installations and providing direction to solve pressing problems and effect new programs that improve management and save energy.

Installations' Readiness Report: The Department is developing this tool to help us characterize the condition of our installations and facilities, and the effect facility condition has on military readiness. Beginning this year, we are requiring each Service and the Defense Logistics Agency to report on the readiness of their installations and facilities. Although the Services and DLA have their own unique facility assessment processes in place, we found there are many common outputs from each of their systems. We worked with the Services and DLA to optimize those common outputs and create a report that will provide a macro level assessment. The installations, and in turn major commands, will use nine facility classes, such as mobility, supply, medical, etc., and will rate each facility class from C-1 through C-4, using standard readiness definitions. Because facility conditions are relatively static over the short term, we will collect this information annually. The Installation Readiness Report is part of the larger readiness assessment system the Department conducts. When we reach a consensus on the contents of this plan, then we will report the results to Congress on April 1 of each year.

Facility Sustainment Model (FSM): One of our most promising tools, which we are still developing, is the FSM. The FSM is designed to improve upon other models we've used in the past to determine RPM requirements. Those included using prior year execution plus inflation, using the Backlog of Maintenance and Repair, using Condition Assessment Systems, and using a percentage of Plant Replacement Value.

The FSM is designed to identify funds required to sustain the facilities we own. Sustainment is a major part of real property maintenance. Other elements of RPM include: fixing facilities damaged by accident or natural disaster or by a facility failure attributable to poor maintenance and repair; improving facilities, with programs such as the DoD barracks modernization; and funding needed minor construction projects.

The model will enable each Service to estimate its sustainment requirement based on validated maintenance costs for each type of facility and an accurate inventory of its real property. The validated maintenance costs are being obtained from recognized commercial sources whenever possible. As part of this effort, the Department will use newly developed facility analysis categories to create a uniform inventory of real property.

When completed, the FSM will potentially allow the Department for the first time to compute a facility sustainment requirement that is applicable throughout the Department. The requirement will be based on the planned inventory and the best available unit costs taken from industry, and will be analyzable by facility location and facility type. The FSM will give us the tool to project the results of our budget plans – to know whether those plans will sustain facilities or allow for degradation. The model can re-compute requirements based on targeting funds at certain locations or certain types of facilities. Changes in assumptions about the future real property inventory can be immediately reflected in a revised sustainment cost. The FSM, in short, will give the Department a new and much-improved tool for managing its real property. We may be able to use FSM for the FY02 program and budget, and for FY02 field level implementation.

Redefined Program Elements: In a companion effort to the FSM model, the Department is considering restructuring or redefining its Program Elements to reflect what we actually do in Real Property Maintenance. Two new basic Program Elements will be “Sustainment” and “Restoration and Modernization”. “Facilities Sustainment” provides resources for maintenance and repair activities necessary to keep an inventory of facilities in good working order. “Restoration” includes repair and replacement work to restore facilities damaged due to failures attributable to inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes. “Modernization” includes alteration of facilities to implement new or higher standards (including regulatory changes), to accommodate new functions, or to replace building components that typically last more than 50 years.

Inventory of Real Property Assets: An important key in the Department’s management of its real property is an accurate inventory of all its real property assets. Recognizing this, the Department in November 1998, began a concentrated effort to 1) validate its recorded costs of general property, plant and equipment, 2) verify historical costs, and 3) provide guidance on the accumulation of real property costs and on computation of depreciation expenses to be reported on the FY99 financial statements of the Military Departments and Defense Agencies. The first phase of this validation is complete and the second phase is underway. The results of the audit will give us an accurate accounting of our assets and their value. An accurate inventory is important to successful implementation of the Facilities Strategic Plan and the Facility Sustainment Model.

Historic Facilities: One of our special challenges is sustaining and preserving the Department's historic facilities. We manage them the same as we do other properties but they do pose a challenge because of their intrinsic historic and cultural value. Historic facilities may have higher sustainment costs because of age and the unique materials used on older facilities. However, such building materials generally have a longer life than most modern materials, resulting in lower life cycle costs. Close association with State Historic Preservation Offices has helped keep costs down as well, by compromising on a case-by-case basis on the types of materials that can be substituted. Approximately 16,000 DoD properties (e.g., administrative buildings, housing, archeological sites) are either listed on the historic register or eligible (has been completed registry evaluation and is awaiting formal approval) for listing.

Cooperation with the General Accounting Office: The GAO Report of September 1999, Real Property Management Needs Improvement, provided us with a comprehensive review of the Department's RPM program. As a result of working with GAO during this study the past two years, the Department has undertaken initiatives to address many of the problem areas identified in the report. The foremost observation in the report is "Without an Overall Management Strategy, the Services' RPM Is in Disarray." The Department has undertaken two major initiatives to address this finding: (1) formation of the Installations Policy Board, and (2) development of a facilities strategic plan, as described above. The Department is now identifying requirements and implementing actions to fully develop a comprehensive facilities management strategy.

An equally important GAO observation is "Insufficient RPM Funding." The Department is aware of this issue and has addressed it in each annual DoD budgeting guidance since 1997. The final GAO report recognizes several key initiatives the Services have undertaken for determining RPM funds allocation. All four Services have been moving to consider the effect real property condition has on mission accomplishment and to use that judgment in the allocation of RPM resources. The Installations Readiness Reporting System, described earlier, will establish metrics linking facility condition and their effect on mission accomplishment, which will further assist DoD decision-makers in allocating RPM resources. Finally, the Department and Services are continuing to improve the RPM requirement determination process, to better justify RPM funding in a constrained fiscal environment. In short, this GAO study and the ones preceding it have been the catalysts and guides for the Department to make necessary improvements in this critical area.

Military installations are not dissimilar to private sector entities such as major universities, regional airport authorities and large port authorities. As referenced in the recent GAO report, we can learn from these entities to validate and improve the Facilities Sustainment Model and to provide insight into how to develop an effective Facilities Strategic Plan.

We recently visited the two private sector entities. Brigham Young University (BYU) and Lawrence Livermore National Laboratory (LLNL) which were cited in the GAO report as best practices for managing real property. BYU and LLNL use the same industry standards for determining facilities sustainment requirements as we're using in developing our Facilities Sustainment Model.

Other Legislative Proposals

The Department proposes to amend sections of Title 10 of the United States Code to help enhance installation management. They include amending section 2662 to increase the real property reporting threshold to $500,000 from $200,000, and amending section 18232 (3) by inserting the term “readiness center” immediately following the word “armory” to better define the purposes for which armories are constructed and used.

Conclusion

This concludes my prepared testimony. In closing, Mr. Chairman, I sincerely thank you for giving me this opportunity to describe our installations’ and facilities’ programs and for your very strong support for military construction and real property maintenance. I urge you to approve the budgets we have submitted and the legislation we have proposed.