

[H.A.S.C. No. 106-40]

HEARINGS
ON
NATIONAL DEFENSE AUTHORIZATION ACT
FOR FISCAL YEAR 2001—H.R. 4205
AND
OVERSIGHT OF PREVIOUSLY AUTHORIZED
PROGRAMS
BEFORE THE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS
SECOND SESSION

MILITARY READINESS SUBCOMMITTEE HEARINGS
ON
**TITLE III—OPERATION AND
MAINTENANCE**

JOINTLY WITH
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON THE CIVIL SERVICE
MARCH 9, 2000

Serial No. 106-164

HEARINGS HELD
FEBRUARY 29, MARCH 1 AND MARCH 9, 2000



For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: (202) 512-1800 Fax: (202) 512-2250
Mail: Stop SSOP, Washington, DC 20402-0001

U.S. GOVERNMENT PRINTING OFFICE

64-887

WASHINGTON : 2001

MILITARY READINESS SUBCOMMITTEE

HERBERT H. BATEMAN, Virginia, *Chairman*

SAXBY CHAMBLISS, Georgia	SOLOMON P. ORTIZ, Texas
WALTER B. JONES, Jr., North Carolina	NORMAN SISISKY, Virginia
BOB RILEY, Alabama	JOHN M. SPRATT, Jr., South Carolina
DUNCAN HUNTER, California	OWEN PICKETT, Virginia
JAMES V. HANSEN, Utah	ROBERT A. UNDERWOOD, Guam
CURT WELDON, Pennsylvania	ROD R. BLAGOJEVICH, Illinois
TILLIE K. FOWLER, Florida	ADAM SMITH, Washington
JAMES TALENT, Missouri	JAMES H. MALONEY, Connecticut
TERRY EVERETT, Alabama	MIKE MCINTYRE, North Carolina
JIM GIBBONS, Nevada	CIRO D. RODRIGUEZ, Texas
DONALD SHERWOOD, Pennsylvania	

PETER M. STEFFES, *Professional Staff Member*

JOSEPH F. BOESSEN, *Professional Staff Member*

MARY ELLEN FRASER, *Counsel*

THOMAS E. HAWLEY, *Professional Staff Member*

DIANE W. BOWMAN, *Staff Assistant*

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON THE CIVIL SERVICE

JOE SCARBOROUGH, Florida, *Chairman*

ASA HUTCHINSON, Arkansas	ELIJAH E. CUMMINGS, Maryland
CONSTANCE A. MORELLA, Maryland	ELEANOR HOLMES NORTON, Washington,
JOHN L. MICA, Florida	DC
DAN MILLER, Florida	THOMAS H. ALLEN, Maine

EX OFFICIO

DAN BURTON, Indiana

HENRY A. WAXMAN, California

GARRY EWING, *Staff Director*

SUSAN WAREN, *Professional Staff Member*

BETHANY JENKINS, *Clerk*

TANIA SHAND, *Minority Professional Staff Member*

(II)

(II)

CONTENTS

CHRONOLOGICAL LIST OF HEARINGS

2000

	Page
HEARINGS:	
Tuesday, February 29, 2000, Fiscal Year 2001 National Defense Authorization Act—Adequacy of the Fiscal Year 2001 Budget Request to Meet Readiness Needs	1
Wednesday, March 1, 2000, Fiscal Year 2001 National Defense Authorization Act—Real Property Maintenance and Infrastructure Sustainment Funding	151
Thursday, March 9, 2000, Fiscal Year 2001 National Defense Authorization Act—Civilian Personnel Readiness, joint with the Committee on Government Reform, Subcommittee on the Civil Service	279
APPENDIXES:	
Tuesday, February 29, 2000	33
Wednesday, March 1, 2000	191
Thursday, March 9, 2000	319

TUESDAY, FEBRUARY 29, 2000

FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—ADEQUACY OF THE FISCAL YEAR 2001 BUDGET REQUEST TO MEET READINESS NEEDS

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Bateman, Hon. Herbert H., a Representative from Virginia, Chairman, Military Readiness Subcommittee	1
Ortiz, Hon. Solomon P., a Representative from Texas, Ranking Member, Military Readiness Subcommittee	3

WITNESSES

Dake, Gen. Terrence R., Assistant Commandant of the Marine Corps, U.S. Marine Corps	11
Keane, Gen. John M., Vice Chief of Staff, U.S. Army	4
Lyles, Gen. Lester L., Vice Chief of Staff, U.S. Air Force	7
Pilling, Adm. Donald L., U.S. Navy, Vice Chief of Naval Operations	6

APPENDIX

PREPARED STATEMENTS:

Dake, Gen. Terrence R.	76
Keane, Gen. John M.	37
Lyles, Gen. Lester L.	66
Pilling, Adm. Donald L.	47
Rabkin, Norman J., Director, National Security Preparedness, National Security and International Affairs Division, U.S. General Accounting Office	88

DOCUMENTS SUBMITTED FOR THE RECORD:

Active Fixed Wing	103
-------------------------	-----

IV

	Page
DOCUMENTS SUBMITTED FOR THE RECORD—Continued	
Active Rotary Wing	103
QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD:	
Mr. Bateman	107
Mrs. Fowler	150

WEDNESDAY, MARCH 1, 2000

**FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—REAL
PROPERTY MAINTENANCE AND INFRASTRUCTURE SUSTAINMENT
FUNDING**

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Bateman, Hon. Herbert H., a Representative from Virginia, Chairman, Military Readiness Subcommittee	151
Ortiz, Hon. Solomon P., a Representative from Texas, Ranking Member, Military Readiness Subcommittee	156

WITNESSES

Curtin, Neal P., Associate Director, National Security Preparedness Issues, National Security and International Affairs Division; accompanied by Brenda S. Farrell, Assistant Director, National Security Preparedness Issues, National Security and International Affairs Division	152
Mashburn, Maj. Gen. Harold, Jr., Director of Facilities and Services Division, Office of the Deputy Chief of Staff for Installations and Logistics, U.S. Marine Corps	175
Robbins, Maj. Gen. Earnest O., II, the Civil Engineer, U.S. Air Force	173
Smith, Rear Adm. Louis M., Commander, Naval Facilities Engineering Command, U.S. Navy	172
Van Antwerp, Maj. Gen. Robert L., Jr., Assistant Chief of Staff for Installation Management, U.S. Army	170
Yim, Hon. Randall A., Deputy Under Secretary of Defense for Installations	163

APPENDIX

PREPARED STATEMENTS:

Chan, Kwai-Cheung, Director, Special Studies and Evaluations, National Security and International Affairs Division, U.S. General Accounting Office	252
Curtin, Neal P.	198
Mashburn, Maj. Gen. Harold, Jr.	244
Ortiz, Hon. Solomon P.	195
Robbins, Maj. Gen. Earnest O., II	235
Smith, Rear Adm. Louis M.	228
Van Antwerp, Maj. Gen. Robert L., Jr.	221
Yim, Hon. Randall A.	205

DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted for the Record.]

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD:

Mr. Bateman	269
Mr. Hansen	277

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD—Continued	Page
Mr. Ortiz	277

THURSDAY, MARCH 9, 2000

**FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—
CIVILIAN PERSONNEL READINESS**

STATEMENTS PRESENTED BY MEMBERS OF CONGRESS

Bateman, Hon. Herbert H., a Representative from Virginia, Chairman, Military Readiness Subcommittee	279
Cummings, Hon. Elijah E., Jr., a Representative from Maryland, Ranking Member, the Civil Service Subcommittee	284
Ortiz, Hon. Solomon P., a Representative from Texas, Ranking Member, Military Readiness Subcommittee	282

WITNESSES

Cipolla, Frank, Director, Center for Human Resources Management, National Academy of Public Administration; Michael Brostek, Associate Director, Federal Management and Workforce Issues, General Accounting Office; accompanied by Barry Holman, Associate Director, Defense Management Issues, General Accounting Office	285
Disney, Dr. Diane M., Deputy Assistant Secretary of Defense for Civilian Personnel Policy; David L. Snyder, Deputy Assistant Secretary of the Army (Civilian Personnel Policy); Betty S. Welch, Deputy Assistant Secretary of the Navy for Civilian Personnel; Mary Lou Keener, Deputy Assistant Secretary of the Air Force for Force Management and Personnel; and David O. Cooke, Director of Administration and Management, Office of the Secretary of Defense	299
Mica, Hon. John L., a Representative from Florida	280

APPENDIX

PREPARED STATEMENTS:

Brostek, Michael	341
Cipolla, Frank	326
Cooke, David O.	415
Disney, Hon. Diane M.	358
Holman, Barry	341
Keener, Hon. Mary Lou	400
Scarborough, Hon. Joe, a Representative from Florida, Chairman, the Civil Service Subcommittee	323
Snyder, Hon. David L.	378
Welch, Hon. Betty S.	391

DOCUMENTS SUBMITTED FOR THE RECORD:

[There were no Documents submitted for the Record.]

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD:

Mr. Bateman	431
Mr. Chambliss	449
Mr. Underwood	450

106TH CONGRESS
2D SESSION

H. R. 4205

To authorize appropriations for fiscal year 2001 for military activities of the Department of Defense and for military construction, to prescribe military personnel strengths for fiscal year 2001, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 6, 2000

MR. SPENCE (for himself and Mr. SKELTON) (both by request) introduced the following bill; which was referred to the Committee on Armed Services

A BILL

To authorize appropriations for fiscal year 2001 for military activities of the Department of Defense and for military construction, to prescribe military personnel strengths for fiscal year 2001, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “National Defense Authorization Act for Fiscal Year 2001”.

* * * * *

TITLE III—OPERATION AND MAINTENANCE

Subtitle A—Authorization of Appropriations

SEC. 301. OPERATION AND MAINTENANCE FUNDING.

Funds are hereby authorized to be appropriated for fiscal year 2001 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense, for expenses, not otherwise provided for, for operation and maintenance, in amounts as follows:

- (1) For the Army, \$19,123,731,000.
- (2) For the Navy, \$23,300,154,000.
- (3) For the Marine Corps, \$2,705,658,000.
- (4) For the Air Force, \$22,346,977,000.
- (5) For the Defense-wide activities, \$11,920,069,000.
- (6) For the Army Reserve, \$1,521,418,000.
- (7) For the Naval Reserve, \$960,946,000.
- (8) For the Marine Corps Reserve, \$133,959,000.
- (9) For the Air Force Reserve, \$1,885,859,000.
- (10) For the Army National Guard, \$3,182,335,000.
- (11) For the Air National Guard, \$3,446,375,000.
- (12) For the Defense Inspector General, \$144,245,000.
- (13) For the United States Court of Appeals for the Armed Forces, \$8,574,000.
- (14) For Environmental Restoration, Army, \$389,932,000.
- (15) For Environmental Restoration, Navy, \$294,038,000.

(VII)

VIII

- (16) For Environmental Restoration, Air Force, \$376,300,000.
- (17) For Environmental Restoration, Defense-wide, \$23,412,000.
- (18) For Environmental Restoration, Formerly Used Defense Sites, \$186,499,000.
- (19) For Overseas Humanitarian, Disaster, and Civic Aid programs, \$64,900,000.
- (20) For Drug Interdiction and Counter-drug Activities, Defense-wide, \$836,300,000.
- (21) For the Kaho'olawe Island Conveyance, Remediation, and Environmental Restoration Trust Fund, \$25,000,000.
- (22) For the Defense Health Program, \$11,244,543,000.
- (23) For Cooperative Threat Reduction programs, \$458,400,000.
- (24) For Overseas Contingency Operations Transfer Fund, \$4,100,577,000.

SEC. 302. WORKING CAPITAL FUNDS.

Funds are hereby authorized to be appropriated for fiscal year 2001 for the use of the Armed Forces of the United States and other activities and agencies of the Department of Defense for providing capital for working capital and revolving funds in amounts as follows:

- (1) For the Defense Working Capital Funds, \$916,276,000.
- (2) For the National Defense Sealift Fund, \$388,158,000.

SEC. 303. ARMED FORCES RETIREMENT HOME.

There is hereby authorized to be appropriated for fiscal year 2001 from the Armed Forces Retirement Home Trust Fund the sum of \$69,832,000 for the operation of the Armed Forces Retirement Home, including the United States Soldiers' and Airmen's Home and the Naval Home.

SEC. 304. TRANSFERS FROM THE NATIONAL DEFENSE STOCKPILE TRANSACTION FUND.

(a) TRANSFER AUTHORITY.—To the extent provided in appropriations Acts not more than \$150,000,000 is authorized to be transferred from the National Defense Stockpile Transaction Fund to operation and maintenance accounts for fiscal year 2001 in amounts as follows:

- (1) For the Army, \$50,000,000.
- (2) For the Navy, \$50,000,000.
- (3) For the Air Force, \$50,000,000.

(b) TREATMENT OF TRANSFERS.—Amounts transferred under this section—

- (1) shall be merged with, and be available for the same purposes and the same period as, the amounts in the accounts to which transferred; and
- (2) may not be expended for an item that has been denied authorization of appropriations by Congress.

Subtitle B—Environmental Provisions

SEC. 311. REIMBURSEMENT FOR CERTAIN COSTS IN CONNECTION WITH THE FORMER NANSEMOND ORDNANCE DEPOT SITE, IN SUFFOLK, VIRGINIA.

(a) AUTHORITY TO REIMBURSE EPA.—The Secretary of Defense may pay not more than \$98,210.00, using funds described in subsection (b), to the Former Nansmond Ordnance Depot Site Special Account within the Hazardous Substance Superfund established by section 9507 of the Internal Revenue Code of 1986 (26 U.S.C. 9507) to reimburse the Environmental Protection Agency for costs incurred by the agency in overseeing a time critical removal action (TCRA) under CERCLA being performed by DoD under the Defense Environmental Restoration Program (10 U.S.C. 2701) for ordnance and explosive safety hazards at the Former Nansmond Ordnance Depot Site in Suffolk, Virginia, pursuant to an Interagency Agreement, entered into by the Department of the Army and the Environmental Protection Agency on January 3, 2000.

(b) SOURCE OF FUNDS.—Any payment under subsection (a) shall be made using amounts authorized to be appropriated by section 301 to Environmental Restoration, Formerly Used Defense Sites.

(c) CERCLA DEFINED.—In this section, the term “CERCLA” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. 9601 et seq.).

SEC. 312. PAYMENT OF FINES OR PENALTIES IMPOSED FOR ENVIRONMENTAL VIOLATIONS.

The Secretary of the Military Department concerned may pay from funds otherwise available for such purposes not more than the following amounts at the locations and for the purposes indicated below:

- (1) For the Department of the Army:
- (A) \$993,000 for Walter Reed Army Medical Center, Washington, D.C., under the Resource Conservation and Recovery Act, in satisfaction of a fine imposed by Environmental Protection Agency Region 3, for a Supplemental Environmental Project.
 - (B) \$377,250 for Fort Campbell, Kentucky, under the Resource Conservation and Recovery Act, in satisfaction of a fine imposed by Environmental Protection Agency Region 4, for a Supplemental Environmental Project.
 - (C) \$20,701 for Fort Gordon, Georgia, under the Resource Conservation and Recovery Act, in satisfaction of a fine imposed by the State of Georgia, for a Supplemental Environmental Project.
 - (D) \$78,500 for Pueblo Chemical Depot, Colorado, under the Resource Conservation and Recovery Act, in satisfaction of a fine imposed by the State of Colorado, for Supplemental Environmental Projects.
 - (E) \$20,000 for Deseret Chemical Depot, Utah, under the Resource Conservation and Recovery Act, in satisfaction of a fine imposed by the State of Utah, for a Supplemental Environmental Project.
- (2) For the Department of the Navy:
- (A) \$108,800 for Allegany Ballistics Laboratory, West Virginia, under the Resource Conservation and Recovery Act, to the West Virginia Division of Environmental Protection to pay a cash penalty.
 - (B) \$5,000 for Naval Air Station, Corpus Christi, Texas, under the Clean Air Act, to Environmental Protection Agency Region 6, to pay a cash penalty.

Subtitle C—Other Matters

SEC. 321. REIMBURSEMENT BY CIVIL AIR CARRIERS FOR SUPPORT PROVIDED AT JOHNSTON ATOLL.

(a) IN GENERAL.—Chapter 949 of title 10, United States Code, is amended by adding at the end the following new section:

“§ 9783. Reimbursement by civil air carriers for support provided at Johnston Atoll

“(a) AUTHORITY OF THE SECRETARY.—Subject to subsection (b), the Secretary of the Air Force may issue regulations requiring payment by civil air carriers for support provided to them at Johnston Atoll.

“(b) TYPES OF CHARGES.—Any regulations issued under subsection (a)—

“(1) may charge, but not exceed, the actual costs, including indirect costs, of support provided by the United States to the civil air carrier;

“(2) may only include charges for support requested by the civil air carrier or required to accommodate the civil air carrier’s use of Johnston Atoll; and

“(3) shall provide that charges under them shall be in lieu of any otherwise collectable landing fees.

“(c) SUPPORT DEFINED.—In this section, the term “support” includes the costs of construction, repairs, services, or supplies, including, but not limited to, fuel, fire rescue, use of facilities, improvements required to accommodate use by civil air carriers, police, safety, housing, food, air traffic control, and suspension of military operations on the island (including operations at the Johnston Atoll Chemical Agent Demilitarization System).

“(d) DISPOSITION OF PAYMENTS.—Notwithstanding any other provision of law, amounts collected from a civil air carrier under this section shall be credited to the appropriations under which the costs associated with the support were incurred. Amounts so credited shall be available for obligation for the same period as the appropriation to which credited.

“(e) PAY-AS-YOU-GO SCORING.—From the cash proceeds resulting from services provided to civil air carriers at Johnston Atoll under the authorities provided by this section, for which the Air Force does not have existing authority to retain, up to the following amounts shall be transferred to Miscellaneous Receipts in the Treasury:

- “(1) In FY 2001, \$219,000;
- “(2) In FY 2002, \$219,000;
- “(3) In FY 2003, \$219,000;
- “(4) In FY 2001, \$219,000; and
- “(5) In FY 2001, \$219,000.”

(b) CLERICAL AMENDMENTS.—The table of sections at the beginning of chapter 949, United States Code, is amended by adding at the end the following new item: “9783. Reimbursement by civil air carriers for support provided at Johnston Atoll.”

SEC. 322. USE OF EXCESS TITANIUM SPONGE IN THE NATIONAL DEFENSE STOCKPILE FOR MANUFACTURING DEPARTMENT OF DEFENSE EQUIPMENT.

(a) **TRANSFER AUTHORIZED.**—Upon the request of the Secretary of a Military Department or the Director of a Defense Agency, the Secretary of Defense may transfer excess titanium sponge from the stocks of the National Defense Stockpile for use in manufacturing defense equipment.

(b) **NON-REIMBURSABLE.**—Transfer under this section shall be without a requirement to reimburse the National Defense Stockpile Transaction Fund. The recipient Military Department shall pay all transportation and related costs incurred in connection with the transfer.

(c) **RELATIONSHIP TO OTHER DISPOSAL AUTHORITY.**—The quantity of titanium sponge transferred under this section may not exceed the amount identified as excess in section 3304 of the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105–85, 111 Stat. 2057). Transfers to the Secretary of the Army pursuant to section 3305 of the National Defense Authorization Act for Fiscal Year 1996 (Public Law 104–106, 110 Stat. 630) take precedence over transfers under this section.

SEC. 323. CLARIFICATION AND EXTENSION OF PILOT PROGRAM FOR ACCEPTANCE AND USE OF LANDING FEES CHARGED FOR USE OF DOMESTIC MILITARY AIRFIELDS BY CIVIL AIRCRAFT.

Section 377 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999, Public Law 105–261, is amended as follows:

(1) in subsection (a)—

(A) by striking “1999 and 2000” and inserting “2001, 2002, and 2003”;

and

(B) by striking the last sentence of such subsection and inserting “Authority to carry out a pilot program under this section shall terminate September 30, 2003.”;

(2) by amending subsection (b) to read as follows:

“(b) **LANDING FEES DEFINED.**—For purposes of this section, the term ‘landing fees’ shall mean any fee established under or in accordance with regulations of the military department concerned, whether prescribed by fee schedule or imposed under a joint-use agreement, to recover costs for civil aircraft use of the department’s airfields in the United States, its territories and possessions.”;

(3) in subsection (c), by striking “Amounts received for a fiscal year in payment of landing fees imposed” and inserting “Landing fees collected.”; and

(4) in subsection (d)—

(A) by striking “March 31, 2000”, and inserting “March 31, 2003.”; and

(B) by striking “December 31, 1999” and inserting “December 31, 2002.”.

SEC. 324. ECONOMIC DISTRIBUTION OF DISTILLED SPIRITS.

Subsection 2488(c) of title 10, United States Code, is amended—

(1) by striking paragraph (2); and

(2) by redesignating paragraph (3) as paragraph (2).

* * * * *

FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—ADEQUACY OF THE FISCAL YEAR 2001 BUDGET REQUEST TO MEET READINESS NEEDS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Tuesday, February 29, 2000.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2212, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee), presiding.

OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will come to order. This afternoon, the Subcommittee on Military Readiness is meeting to get a better understanding of current readiness of the military services, and to get an assessment of the current and next year's budget requests to adequately sustain acceptable levels of readiness.

We have asked the vice chiefs of staff from each of the four military services to give us their views on these issues. The vice chief of staff of each of the military departments is charged with overseeing the day-to-day operations of their respective services.

Over the past five years, the Subcommittee on Military Readiness has taken issue with the shortages in the Administration's budget proposal in several areas that the subcommittee believes are critical to maintaining readiness in the military services.

These areas include base operations support, real property maintenance, depot maintenance, ship repairs and overhauls, operational tempo, quality of life improvements, and mobility enhancement funds. Between 1994 and 2000, this committee recommended over \$10 billion in additional funding to the Administration's requests in just these areas.

However, this significant additional attention has not corrected the continual shortfalls in these accounts. One of the reasons for these shortfalls has been continued unscheduled and unbudgeted deployments which have caused severe strain on personnel and equipment. I am glad to see that, at last this year, funding for all of our current operations has been included.

However, I see on the horizon some contingencies that just may pop up and which aren't included and which again can have a very, very detrimental affect on your planning and execution of the budget that we authorized and for which funds are appropriate.

Another reason is the high cost to maintain equipment that is well past its designed usage with little relief in sight.

After an initial look at the budget proposal for fiscal year 2001, it would appear that for the first time in many years, there is growth in the readiness accounts. This is good news, but this growth is primarily a reflection of a significant increase in the price of fuel and for normal inflation.

Setting aside these growth factors, there is very little new money to arrest and turn around the declining readiness problems that are plaguing our military. In addition, the budget before us projects that readiness funding levels will decrease by nearly \$2 billion in fiscal year 2002.

As they have done in previous years, the chiefs of the military services provided the committee with their lists of unfunded priorities for fiscal year 2001 that total \$15.5 billion and estimated that the unfunded shortfall in the next five years to be at \$84.2 billion.

Even after this committee's addition to the budget request of \$3.2 billion last year to reduce the readiness unfunded priorities of the military services, the list continues to grow.

Although the fiscal year 2001 budget request does contain increases in other important areas such as procurement and military personnel, the illusion that the level of funding for readiness meets all of the services requirements is overstated. It is beyond my understanding how improvements to military readiness can be met with only inflationary increases, decreases in funding in the coming years, and ever-increasing unfunded requirements that are many billions short in several critical areas.

Another area that has concerned me and many members of the subcommittee is what the services do with the funds Congress authorizes and appropriates. A recent General Accounting Office (GAO) report notes that over a five-year period from 1994 to 1998, the Department of Defense (DOD) changed funding in various operation & management (O&M) accounts by almost \$43 billion compared with the amounts of money the Congress originally designated for those accounts.

Article One, Section Eight of the Constitution requires that Congress provide for the military. I and the members of the committee take this responsibility very seriously. I understand that operational needs of the military require the movement of funds during the year of execution, but movements of this magnitude outside of the normal legislative process are clearly not acceptable.

Also unacceptable is the continual under-execution of funds provided by Congress. As an example, during this same five-year period, the Navy it is said under-executed its ship depot maintenance account by over \$1.2 billion. The Air Force under-executed its primary combat forces account by \$988 million.

And the Army, in only two years—1997 and 1998—under-executed its combat divisions account by \$580 million. These three specific service accounts are considered by DOD to be the most directly related to readiness and have been designated by Congress as high priority readiness-related accounts. It is my intention to find out why these critical readiness accounts are consistently under-spent.

What we would like to hear from our witnesses today is what has been done with the significant amounts of additional funding provided by Congress to fix readiness, what are the reasons why we

are not there yet, and what it will take to not only arrest the decline in readiness, but to provide a permanent, sustainable course of action to return readiness to acceptable levels.

We would also like to hear from our witnesses on their assessment of current readiness and the risks involved in maintaining readiness in the current and projected budget levels.

Because we owe it to the American taxpayer and our military men and women to ensure that there is sound stewardship over the resources that are entrusted to the Department of Defense, the hearing today is especially important. The issues we will discuss today have the potential of affecting military readiness now and in the future.

Our witnesses today will be—and we are very pleased and honored to have them with us—General John M. Keane, Vice Chief of Staff, U.S. Army; Admiral Donald L. Pilling, Vice Chief of Naval Operations, U.S. Navy; General Lester L. Lyles, Vice Chief of Staff, U.S. Air Force; and General Terrence Dake, Assistant Commandant, U.S. Marine Corps.

Prior to hearing from our witnesses, I will now yield to the ranking Democratic member of the subcommittee, Mr. Ortiz, for any comments he may choose to make.

STATEMENT OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. ORTIZ. Thank you, Mr. Chairman. I join you in welcoming our distinguished witnesses, the vice chiefs of staff and the assistant commandant of the U.S. Marine Corps, to this hearing today. I thank them for their service to this great nation, and I look forward to their assessments of the readiness posture and funding issues.

As we start the second session of the 106th Congress, I also want to thank you, Mr. Chairman, for your dedicated and impartial leadership of the readiness subcommittee. I am certain that I state for my colleagues in saying how much we appreciate your sincere interest in improving the readiness, Mr. Chairman, of our military forces, and the impartial manner you have been leading the activities of the subcommittee.

It is very instructive for me to reflect back on my tenure on the readiness subcommittee; and I feel compelled, in this, our first readiness subcommittee hearing of the century, to take a little time to share some of my thoughts and concerns.

First, I remain impressed with the outstanding performance of our uniformed personnel and dedicated civilian personnel. They have performed diligently under some very trying circumstances. Even under the stress of high operating tempo (OPTEMPO) and the uncertainty of outsourcing and privatization initiatives, they have continued to perform more with less. They deserve all the accolades that we give them.

I am disappointed, though, that we must continue in this century to fight to improve the overall readiness posture of the force. Making real and sustainable progress in getting rid of the repair and the spare parts problem, or making a dent in the real property maintenance backlog, appears to be impossible.

Like you, Mr. Chairman, I am concerned about where did all of this money go. Does the department really consider the readiness account a slush fund? What is going to be the result of them doing all of the so-called DOD efficiency initiatives and the Congressional acts to the budget request? Notwithstanding all of the new and innovative maintenance concepts and the out-sourcing initiative, we are still struggling with the same issues—a prudently maintained infrastructure and a marginally acceptable level of force readiness.

To make matters worse, the marginally acceptable equipment readiness comes on the backs of already over-worked personnel. As we try to understand the adequacy of this budget submission, I hope each of you will address budget assumptions and considerations that continue to puzzle me, and that is how to incorporate savings from future outsourcing initiatives in the current budget, and what would be the impact of not achieving the savings as identified?

I also think it would be helpful to share with the subcommittee your experience with achieving the savings that have been projected so far. I would like to know how the services budget for the conduct of the value self-sourcing studies? Have any of you conducted any studies on the impact of the outsourcing initiatives? On the retention and productivity of the civilian work force? Have the initiatives made a difference in attracting the quality and quantity of new workers needed to take care of our aging work force concerns?

Mr. Chairman, the answers to those questions are critical for our understanding of the Administration's budget request. I am not convinced that the Department has a thorough understanding of the cost or consequences that are associated with some of these reform initiatives. I ask these questions today because the hearing schedule does not permit a separate outsourcing hearing session before we mark up the bill. I do believe that any answers they provide us today would be very instructive.

Again, I welcome our distinguished witnesses here today, and I look forward to their testimony and responses to the questions. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz, and now General Keane, and our other witnesses, we have your written statements. They will be made part of the record in their entirety; and General Keane, if you would like to proceed, followed by Admiral Pilling and by General Lyles and then General Dake, we will be happy to hear from you.

**STATEMENT OF GEN. JOHN M. KEANE, VICE CHIEF OF STAFF,
U.S. ARMY**

General KEANE. Mr. Chairman, thank you. Chairman Bateman, Congressman Ortiz, distinguished members of the readiness committee, I'm honored to be here today with my fellow vice-chiefs, and thank you for the opportunity to appear before you to discuss the President's 2001 budget request and its impact on Army readiness.

I also will submit this brief opening statement; and as we indicated, the much longer version for the record. I just want to take this opportunity to thank all the members of the committee for your support for Army readiness. During the past five years, you

have contributed \$741 million to Army readiness over the President's budget request.

What that has translated to us is improved readiness that has bolstered our depot maintenance, training in OPTEMPO, and also our ammunition management programs, which support the entire Army.

As Chairman Bateman indicated, over the last ten years, they have really been very busy years for us since the end of the cold war. It has simply been one of the busiest times in the last, 20th century; and throughout this period, our Army has focused on its primary mission—that is, to train and win its nation's wars. Our number one priority has been, and will continue to be, maintaining a trained and ready Army. By trained and ready in Army language, we mean C-1, and traditionally we have been a C-1 Army; but frankly, we are not a C-1 Army today. That is not to say that we cannot accomplish all that the nation expects of us, but the farther we move away from the C-1 standard, the greater the risk involved, and the greater the price we pay in the long term.

You began the reversal of our readiness decline last year. We thank you for that support, and we need your support to continue that momentum. The President's budget request provides the required resources to meet our most compelling readiness requirements. The budget allows us to fund our ground OPTEMPO accounts at 100 percent of validated requirements for the active component, the National Guard, and the Reserves, and our air OPTEMPO at nearly 100 percent as well.

It is, however, a budget with little flexibility. We have had to make some tough choices with this budget, and there are some areas specifically in real property maintenance in depot maintenance accounts that we are not able to be as proactive as we would like. Real Property Maintenance (RPM) remains under-funded for all three of our components in 2001.

The budget formed 69 percent of the requirements for the active component, 63 percent for the National Guard, and 75 percent for the Army Reserve. These RPM shortfalls will likely increase the risk of higher future costs due to deferred maintenance and renovation of older facilities.

Depot maintenance support receives a slight boost in 2001, but overall depot operations are still only funded at 80 percent of the requirements for the active component and 77 percent for the Reserve component. The shortfall could force us to defer maintenance and upgrades for some of our major combat systems, thereby increasing the likelihood of reduced operational readiness rates and affecting, certainly, the availability of our equipment for training.

Let me say that last October, General Shinseki and Secretary Caldera announced the Army's vision for the future, a vision which involves no less than the complete transformation of our Army into a force that is more strategically responsive and dominant across the full spectrum of our operations.

That force will have stretch goals to deploy a combat brigade in 96 hours, a division in 120 hours, and five divisions within 30 days. This budget request allows us to begin the movement toward that transformation. We have embarked on a journey to make the most dramatic changes to our Army since World War II, to make the

Army more responsive today and to shape our capabilities for tomorrow.

With your help, we intend to do three primary things with this budget: to protect the readiness of the Army, number one; and number two, to provide a quality of life experience for our soldiers and their families; and number three, to begin the transformation of our Army.

To accomplish all of that, we have submitted our portion of the President's budget, and we have also identified \$5.4 billion in unfunded requirements that would be tracked from those three goals.

We appreciate your continued support and your consideration. Mr. Chairman, thank you for the invitation to appear today. I look forward to your questions.

[The prepared statement of General Keane can be found in the Appendix on page 37.]

Mr. BATEMAN. Thank you, General Keane, and Admiral Pilling.

**STATEMENT OF ADM. DONALD L. PILLING, U.S. NAVY, VICE
CHIEF OF NAVAL OPERATIONS**

Admiral PILLING. Thank you, Mr. Chairman, distinguished members of the committee, thank you for the opportunity to discuss the Navy's operations and maintenance budget with you today.

Today's Navy is the most capable and the most ready in the world. Over 45 percent of the fleet is under way today, either deployed or engaged in training for deployment. The men and women of three carrier battle groups and three amphibious ready groups are en route to or on station in the Mediterranean Sea, in the Arabian Gulf. Another battle group and amphibious group are operating in the Western Pacific. These Naval forces are maintaining our forward presence and are ready for combat operations if the nation needs them. This is the core of what our O&M budget buys.

With your permission, I would like to talk about three specific items: personnel, current readiness, and then recapitalization.

Our readiness depends on our ability to attract and retain high quality motivated and trained sailors, even as the nation's strong economy imposes significant challenges in recruiting and retention. Last year's focus on recruiting with the assistance of this committee resulted in the Navy meeting its fiscal year 1999 recruiting goal. It will take at least this much effort and money to sustain success in recruiting this year.

Retention of sailors once we recruit them continues to be a problem. Although we are seeing some improvement as a result of the recent pay and bonus improvements, retention rates in all categories remain below our steady state targets. Those gains that we have been able to make in recruiting and retention have improved readiness. The number of gapped at-sea billets has declined from a high of over 18,000 in 1998 to roughly 9,200 today.

Today the readiness of our deployed forces continues to be satisfactory. This is validated by the impressive performance of our fleet units in Operations ALLIED FORCE and SOUTHERN WATCH. Our non-deployed readiness has always by design been lower than that of our deployed forces, because the Navy operates on a cycle of readiness that peaks as a ship or a squadron departs for deployment.

The strain of high OPTEMPO, frequent deployments, and aging ships and aircraft is seen in the progressive decline of our forces' readiness in between their deployments. O&M funding shortfalls today, when they occur, have a greater and more rapid impact on non-deployed forces than in the past.

In the area of aviation, we have repriced the Flying Owl program within operations and maintenance to better reflect the increase in costs associated with sustaining our aging aircraft.

Aircraft depot maintenance funding is sufficient to ensure that deployed squadrons have 100 percent of the necessary aircraft, while non-deployed have at least 90 percent. Also as a result of lessons learned in Kosovo, fiscal year 2001 includes \$23 million in funding for spare parts and equipment necessary to establish one additional EA6-B squadron.

In the area of ship operations, our operations and maintenance funds are adequate to achieve our ship OPTEMPO goals of 50.5 underway days per quarter for deployed ships, and 28 underway days per quarter for non-deployed ships. We are concerned with funding for ship depot maintenance as our fleet commanders are telling us that we have underestimated what it will take to properly support planned availabilities.

The reductions that we had to take in our O&M appropriation as a result of the fiscal year 2000 rescission of .52 percent were targeted at real property maintenance to protect the critical fleet flying hour and maintenance accounts. This \$120 million reduction will have a serious impact on the readiness of our shore facilities.

Looking to the future, increasing our investment to support the recapitalization and modernization of our Navy is essential to maintaining operational readiness. Adequate readiness can only be sustained in the future with a modernization and recapitalization program that delivers sufficient numbers of technologically superior platforms and systems to the fleet.

I remain concerned that we are falling behind in this effort. We need to invest now with a focused and expanded program to maintain superiority through the first half of the 21st century.

Balancing the fiscal and operational needs of today with the defense requirements of tomorrow is a challenging task. We cannot accomplish this alone. We need your continued support.

Mr. Chairman, again, I would like to thank you and this committee for all you have done for the Navy, and I look forward to working with you in the future; and I will be happy to answer any questions the committee might have.

[The prepared statement of Admiral Pilling can be found in the Appendix on page 47.]

Mr. BATEMAN. Thank you very much, Admiral Pilling, and now we are pleased to hear from General Lyles.

**STATEMENT OF GEN. LESTER L. LYLES, VICE CHIEF OF STAFF,
U.S. AIR FORCE**

General LYLES. Mr. Chairman, good afternoon. I want to also thank you and Mr. Ortiz and the rest of the members of the committee for your very strong support to all of the services, and particularly to the U.S. Air Force.

I would like to just make a few brief comments relative to the readiness posture for the U.S. Air Force and the many challenges that we face today and certainly into the future.

1999 was another banner year for the Air Force. Our forces were deployed throughout the world in various contingencies, starting at the beginning of the year in DESERT FOX over the skies of Iraq, to ALLIED FORCE, to the continued operations of Operations NORTHERN WATCH and SOUTHERN WATCH, and the humanitarian operations both here and abroad.

We showed in Kosovo, as an example, that your Air Force, our Air Force, was ready when the nation called, as it is today literally across the world. Today we have some 90,000 airmen who are stationed throughout the world and the United States. We have some 250 aircraft that are permanently stationed across the world in various contingencies, and we have been successful in all the different missions that the country has called upon for the U.S. Air Force.

Yet, in spite of those successes, we still have faced many, many challenges, and those challenges in some respects, Mr. Chairman, reflect the balanced budget that we tried to put together and reflect in the President's budget. The challenges are in the area of people, readiness, infrastructure, and modernization; and if you don't mind, I will just briefly make a comment about the first three—people, readiness and infrastructure.

We have increased the funding for our readiness posture, particularly for spares support for all of our various programs and all of our supporting activities. We increased the funding in 1999, beginning in 1999 to address the shortfalls that we had over the past years. We continue that increase in funding in the year 2000, and the President's budget for 2001 reflects a continuation of that particular posture.

I am optimistic that the sustained funding for readiness will allow us to turn around the readiness decline that we have experienced over the last several years, but we have not yet reached that particular goal. All the indicators, the leading indicators are very, very positive, but they have not yet reflected in what's happening out in the field, and what is happening in the troops that are deployed.

Overall readiness of our major operation units are down 26 percent since 1996, and 11 percent in the last year alone. Today only 68 percent of our combat units are reporting readiness in the top two categories, C-1 and C-2. That's far short of our goal of 92 percent. Overall for the U.S. Air Force, both combat forces and support forces, 82 percent of our forces are at the C-1 and C-2 level, but again, it doesn't reach the goal of 92 percent.

We are taking a number of steps, Mr. Chairman, to try to reverse this readiness decline. The first, as I indicated before, is to readily remedy the issue relative to parts shortage. We have funded spares at 100 percent in fiscal year 2000, and we reflect that again in the President's budget for 2001.

We have taken process initiatives and contract initiatives to reduce vendor lead time to make sure we can get the new components that we are procuring out to the field and out to our depots as rapidly as we possibly can. We are making upgrades and im-

provements in reliability to literally all of our platforms. We have some 279 initiatives totaling \$2.8 billion across a fighter—impacting the F-16 and F-16 engines particularly—the C-5 program, the C-130 program, KC-135 program, and many, many others.

We are also taking steps to make sure we are addressing the concern for our people, and particularly the expeditionary nature that the Air Force finds itself involved in. Our Expeditionary Air Force (EAF) concept that we initiated formally beginning this past fall is proceeding very, very well. We are in the initial steps of our EAF concept, but the Commanders in Chief (CINCs) are very, very supportive and so far very, very pleased with everything we are trying to do to support them while giving a better definition to the expeditionary nature of the U.S. Air Force.

We think, Mr. Chairman, that we have the right fixes, and that we are going to turn the mission capability rates around; but we have not reset yet, and our indicators though positive, have not shown the results out into the field, and we will continue the emphasis in this particular area.

In the area of people, because of the pace of our operations around the world, we are now, today, 40 percent fewer than we were ten years ago, but yet 400 percent increase in OPTEMPO for our people. Our airmen are working harder than ever before, and the strain is beginning to show.

Mr. Chairman, thanks to you, this particular committee, and the rest of the Congress, we are beginning to take the positive steps to help our people, and particularly those in the field. You have improved the pay and benefits for our airmen last year, and for their families; and we thank you graciously for all the things that you have done to help them in that particular area.

The compensation package will be a very, very strong benefit toward us being able to support our people with the quality of life that they deserve; and as I mentioned before, our expeditionary Air Force is providing both the predictability and the stability to our airmen that they need to accomplish their mission.

Mr. Chairman, another factor in readiness, the very, very complex readiness equation, is the issue of recruiting and retaining good people, and retention and recruitment for the U.S. Air Force. We are facing the toughest environment that we have had in decades. Our robust civilian economy and the low propensity to enlist for all of our people around the United States have made this a major, major challenge for us, something we have never faced before in the U.S. Air Force.

In spite of an increase of 600 people last year above what we have normally recruited, we still missed our recruiting goals by about 1700 people last year, even with the higher goal that we established for ourselves. We're already this year, so far, some 1700 still short for the numbers we need in fiscal year 2000.

We are taking actions to try and remedy that particular situation, but enlistment and retention go hand in hand. Our enlistment and retention remains a major concern for us. We are missing our goals in all of our categories for first term enlistments, second term enlistments, and career enlistments.

We have taken a number of steps to encourage our young people to enlist, and to stay in the U.S. Air Force, and to make it a career.

We have added re-enlistment bonuses; some 73 percent of the Air Force skills now receive a re-enlistment bonus. That's up from 34 percent in fiscal year 1997.

We have a full court press to improve our recruiting skills and recruiting manpower. We are the lowest service in terms of the numbers of recruiters out there in the field, and we're trying to change that for the U.S. Air Force for now and the future. We're going to be increasing the number of recruiters by some 850 by April of 2001 to bring our number of recruiters up to about 2,000. Today we are about 900 or so.

We have also increased TV advertising for the first time for the U.S. Air Force. Our numbers in fiscal year 1999 were up to about \$70 million; and for 2000 and 2001, we're going to be at about \$65 million to begin advertising and telling the story for the U.S. Air Force, and again, enticing people to want to recruit and come into the U.S. Air Force.

And finally, we have expanded incentives so that initial enlisted bonuses are offered for now 100 skills in the U.S. Air Force. That's up from a low of only four skills just a couple of years ago.

Finally, in the area of infrastructure, we are making strides to try and stay balanced in terms of our infrastructure funding. We are nowhere near the numbers we need to keep the infrastructure where it should be, and to make improvements in that area that need to be addressed.

Infrastructure is sort of the Peter that ends up the one we rob to pay for Paul, and all the other different areas that we have in our affordability equation for the U.S. Air Force. As a result of this, our RPM backlog is growing to about the tune of \$4.3 billion. We are at the level now where all we can do is maintain RPM at literally one percent. That's enough for preventive maintenance only, and it limits us to repairs only as we address our shortfalls.

MILCON levels are steady from where they were last year, but they are one-third of what our validated needs are; and in the area of military family housing, we're taking steps to address the military family housing plan that we presented to Congress last year. This plan was applauded by Congress, but we need to make sure we have the funds in the out-years to address all the different things we need to make that plan a reality.

The bottom line, Mr. Chairman, is that readiness is very, very fragile for the U.S. Air Force. While, like the other services, we would never, ever stop short of accomplishing the mission, we will be doing it at higher risk if we can't address some of these issues that I just outlined to you; and we are trying to make sure in our balanced budget that we are trying to address each one of those areas.

Let me close, Mr. Chairman, by just making a comment. I know you just recently returned from a trip to Europe with some of the members of this committee and other Members of Congress, and you had an opportunity to address and see and talk to really the secret, if you will, for the success of the U.S. Air Force, indeed for the other services, and that's our troops out in the field.

They are dedicated. They are proud. They are doing everything they can to support the mission and to support this country. Their morale is very high in spite of the challenges that are ahead of us,

and they fully appreciate everything that the Congress has been trying to do for them.

What we owe to them is literally the very best in quality of life, in equipment, and support and modernized weapon systems that is possible, given all of our budget constraints.

Mr. Chairman, I thank you for the opportunity to talk to you, and I look forward to answering any of your questions. Thank you.

[The prepared statement of General Lyles can be found in the Appendix on page 66.]

Mr. BATEMAN. Thank you, General Lyles.
General Dake.

**STATEMENT OF GEN. TERRENCE R. DAKE, ASSISTANT
COMMANDANT OF THE MARINE CORPS, U.S. MARINE CORPS**

General DAKE. Thank you, Mr. Chairman, Mr. Ortiz. Thank you for allowing me to come before this great committee and speak to you about your Marine Corps.

The help that this committee and the Congress gave the Marine Corps this past year was very much appreciated. It represented a turn in what had been a long decline in the funding for the Marine Corps in many ways. There is more to be done, and we look forward to working with this committee and Members of the Congress to take on that future load.

The Marine Corps is ready. We are a force in readiness, as you have directed us to be. We balance that readiness across four pillars, and it is a balancing act as we do that. The first pillar is our people, the Marines and their families. Today the Commanding General of the Marine Corps Recruiting Command told me that we would make our recruiting goals for the 56th month in row, and we did by the end of this day. This is a leap year, and I have to say we are glad we have an additional day in February in which to make those goals, because recruiting continues to be a very tough business, and one in which we are engaged heavily throughout the Corps, from top to bottom.

We believe also that the things which this committee was instrumental in doing such as retirement, fixing the pay table reforms, the pay raises, and as I travel around the Corps, it means a great deal to Marines and their families; and if there is something remaining to be done in that area, they would tell you that Tricare or medical care is of a concern to them, and I'm sure you have heard those same things in your travels.

The second pillar of our readiness is our legacy of equipment. You spoke about it earlier, Mr. Ortiz, when you spoke about older equipment that is aging and taking longer to repair; and we do so and maintain the readiness on the backs of our Marines. It takes us longer, but it also costs us more to repair that same equipment. On many occasions, the parts that we need to repair it are no longer made by any contractor, and it takes them time to retool and then time for all of those parts to improve our readiness.

But having said that, our readiness has improved. We are 92 percent on the ground for Marine ground equipment readiness; and we have arrested the decline in the aviation side, particularly on our helicopter aviation, so we remain a force in readiness on those counts.

We look for ways in which we can find an economy of force, if you will, to take care of the legacy of equipment, such things as remanufacturing. We will remanufacture our Light Armored Vehicles (LAV's). We will remanufacture some of our trucks. We will buy new trucks as well as the second version of the HMMWVs. We are looking for ways in which we can make it easier to maintain and buy in a cost-effective way to bridge the gap to modernization in those accounts.

The third pillar is infrastructure. This, too, is where we have taken money and put it into our readiness accounts so that we can meet the mandate of the Congress to be a force in readiness. We have some good news. Each year we have put more than \$50 million into our BOQs; and by 2004, there will be no Marine that will live in either a squad bay type of barracks, nor use a gang head. Those are good news items.

We have arrested the decline in backlog of managed real property which was headed to be a billion dollars by 2003. That is now arresting steadily. However, it still remains at \$685 million of backlog in repair which we have insufficient funds to work off in that period.

We also look at our family housing. We will have all of the family housing that needs to be refurbished and repaired; it will be completed by 2010. That's one of the things that we are looking to increase as we work our infrastructure over the next year.

The one infrastructure item which we would like to take on with the Congress this year, and that is the funding for the procurement for the Blount Island command. Blount Island is a port off of the East Coast. It's in Florida and is in fact is used to refurbish and repair our equipment. It's on our maritime pre-positioning. This is the equipment that gives us the sustainability for real time as we put Marines, wherever they are around the world, into combat or operations, they will use the equipment aboard those ships.

In a longer context for the nation, Blount Island represents the busiest port during DESERT SHIELD and DESERT STORM. It loaded more ships out than any other East Coast port. We believe it is not only a Marine Corps asset; but a national asset, and we enjoy you to work with us to take on the procurement of that particular command.

Our final pillar is modernization. Modernization is really long-term readiness. It is really the final answer to the legacy systems and how you combat the readiness degradation that they represent.

We are looking at long-term readiness; our premier program on the ground sides is our Advanced Amphibious Assault Vehicle (AAAV). On the air side is the MV-22 and Joint Strike Fighter, and those continue. We are also looking to do things in the mandate, or the common knowledge is fix artillery. We are looking for the Lightweight 155 as a program which is our modernization of artillery and others as we have outlined in our plans.

In war fighting areas, the Commandant has brought back the Marine Expeditionary Brigade. In conversations and meetings with the Chief of Naval Operations (CNO) and the commandant sponsoring Navy/Marine Corps leadership, we have come away with the Marine Expeditionary Brigade. This is what I call the middle-weight fighter. It bridges the gap between our Marine Expedition-

ary Unit (MEU) Special Operations Command (SOC) which is about battalion level force, and our Operational Maneuver from the Sea (OMFTS), which are a division level force.

The Marine Expeditionary Brigade comes with its own ground, its air, and its sustainability for 30 days. It is a potent force that the Commandant is bringing back.

We have many good things that we are working on this year, much to the credit of this committee and the Congress, that we have had funding beyond what we have seen in the past. However, there is more to go.

I look forward to working with the Congress on that, and I look forward to your questions. Thank you.

[The prepared statement of General Dake can be found in the Appendix on page 76.]

Mr. BATEMAN. Thank you very much, General Dake. Thank you all. The last Quarterly Readiness Report that the committee has received was the period ending September 30th of last year. We have now had another quarter ending December the 31st. Has that Quarterly Readiness Report been completed and in your hands?

General KEANE. Yes, sir, it has been completed, and I was told it was leaving the building either yesterday or today; and clearly we can do better at providing that report to you. We truly understand that.

Mr. BATEMAN. I have been anxiously awaiting it, and I don't understand why we would have to wait that long; and I am almost embarrassed to have to ask when are we going to receive it, so please expedite that.

General KEANE. Well, the Army, just to be up front with you, our portion of that, we have been late seven out of the last ten quarters, and we are going to fix it. After that conversation I had with you in your office, we intend to do something about it.

Mr. BATEMAN. All right, thank you, General. Your statements and the written versions that I reviewed last evening are all replete with shortfalls in many accounts, none perhaps as significant as your real property maintenance accounts. Did I hear for the Air Force that there's a \$4 billion backlog of real property maintenance?

General LYLES. When you look in the aggregate, Mr. Chairman, that's the true number. That reflects decline or lack of funding for real property maintenance or RPM over the last four or five years, and what we project for the future. The funding we had last year, the funding we have in the budget this year keeps us at, or gets us to a one percent real property maintenance level, if you will. It allows us to do emergency repairs to sustain things, but it doesn't allow us to make the kind of major changes you need to literally turn that situation around.

We will not allow people to sit in leaky buildings, as an example, but we won't be able to fix the roof completely, or to replace the roof, and those are the kinds of things that we're going to be facing with that kind of funding level.

Mr. BATEMAN. I have difficulty understanding why people aren't yelling and screaming and banging their fists on the table if you've got those kinds of problems; and they continue to be unfunded year after year after year. It appalls me to have senior military leaders

leave my office with almost a tone of gee whiz, this is getting so much better, I'm going to get 69 percent of requirements in this budget.

I don't think 69 percent of identified requirements is acceptable, and I hope you are going to help the committee with the Administration and with the American people to understand that you have vital needs which are being unfunded; and we cannot do this for you unless you help us. The way you can help us is being very forthcoming and high profile in asserting that the need is there.

I'm going to suspend before I get more frustrated, and recognize Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman. I have a couple of questions for General Keane. Maybe he can help me. Do you know for the Army to recapitalize its air and ground fleet, it would appear logical that the Army would also need to recapitalize its repair and maintenance depots for recapitalization work that they place.

What are the Army's plans to recapitalize the infrastructure, equipment and facilities at Corpus Christi Army Depot in order to recapitalize the Army aviation fleet? Maybe you can give me a little—

General KEANE. Mr. Congressman, you know that we do have a recapitalization effort with development of our Long Bow Apache helicopter, and some improvements we'll be making to the CH-47; and quite frankly, we are looking very hard at elimination of the AH-1 Cobra and the UH-1 because they are Vietnam era aircraft as well.

In reference to your question about depots, and specifically Corpus Christi, the depots are funded out of the Army working capital fund, and their RPM, if you will, or recapitalization effort, comes from the rates that they're charging in terms of the repair and maintenance that are conducted at those facilities.

And those are competitively established, as you know, so that is where the monies come from to do repair and maintenance in those facilities. Let me just be up front with you. We have absolutely no intention of letting that depot decay so that the infrastructure falls down around it; and then the Army says this is too tough, we've got to walk away from it. That's not our intent.

Our intent is to make certain that that facility continues to function, and that the facility is adequate to meet the needs of those great people that work in that facility.

Mr. ORTIZ. You know, and I think if I—and correct me if I'm wrong—it would take about \$400 million to repair all those Apaches that have to be repaired. Is that cost now, is that going to be included in your supplemental to make up the cost that it took? I don't think that the money that was spent was in the budget.

General KEANE. That's correct, the money is not in the budget. The money is in the supplemental; and it is also identified as unfunded requirements, part of the \$5.4 billion that we have as an unfunded requirement.

Mr. ORTIZ. I had some other questions, but let me also pass to some of the other members, and I will come back around for the next round.

Mr. BATEMAN. Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman. Mr. Chairman, I hope you realize that General Lyles will be the commander of Air Materiel Command in a short time. It used to be the commanding officer of Ogden Air Logistics Center (ALC), and congratulations to General Lyles because I don't know a more capable fellow to do it, or officer.

You know, General Lyles, if I may ask you, or any of the other folks who are there, you know, some of the extreme environmental groups have filed a federal lawsuit that would prohibit any overflights under 2,000 feet; and they have wisely done it in Washington, D.C. because there is a certain judge here that goes along with them about on everything, if I may say so.

Tell me what effect, if they are granted that until a National Environmental Protection Agency (NEPA) or Environmental Impact Statement (EIS) statement is done, and the length of time of those—and I'm sensitive to this as Chairman on the Committee on Public Lands—it would take a long time and cost big, big bucks—what effect would that have on readiness if they were successful? What if the judge grants them that?

General LYLES. Well, Congressman Hansen, as you well know, one of the major elements to readiness is training, proper training for our people, particularly to prepare them to go in harm's way situations, as an example. We depend on the ranges that we have, all the ranges—test ranges, development ranges, training ranges—to be the element that allows us to train our forces to go to any sort of scenario they may have to face.

If we are faced with the situation where we can't provide adequate flying at the right kind of levels, elevations to do the proper training, that would tremendously, tremendously impact our ability to support readiness factors for our forces.

The ranges are getting fewer and fewer as it is, and the numbers and the encroachment sort of threats are becoming more and more of a viable concern to all of us, and we are trying to do everything we can to protect and make sure we keep them at least where they are today, if not the ability to expand them in the future.

Mr. HANSEN. Admiral, I guess you would have some of those same concerns with the Navy air?

Admiral PILLING. Yes, sir. I mean, we have requirements for our pilots to be able to do low level flights as part of the training syllabus.

Mr. HANSEN. I am sure the Marines are dragging your wheels through the grass all the time, aren't you? Isn't that part of your work?

General DAKE. That's an important part of what we do. We would be really hard-pressed for readiness if we could not do those types of training.

Mr. HANSEN. You will support us if this committee sees fit to do something to remedy that problem, I would hope.

General LYLES. That's correct, yes, sir.

Mr. HANSEN. General Lyles, let me ask you one more, if I could. As you know, Secretary Peters has issued a waiver for 50/50 legislation which may be necessary to support the transition of workloads from the closing of Kelly and Kelly Logistics Center (KLC). I will discuss this as according to ALC; however, after closer inves-

tigation, I'm somewhat concerned that some of the folks in the Air Force don't see it the same way the secretary sees it, and with any problem the Air Force may have complying with the 50/50 is not with the transition workload, but rather part of the much deeper problem.

In fact, in an Air Force Materiel Command letter signed only two weeks ago, it states, "these bridge contracts may represent a sense of a much larger problem and should not be the only justification to support the air waiver with 50 percent limitation."

It goes on to say the problem is much larger and extends beyond fiscal year 2000. The letter identifies the much greater problem as "the general trend to move logistic support to the private sector and increasing costs of contract and interim logistic support."

Now, I know you are not the commander there yet, General, and this doesn't fall on your watch; but I am just kind of curious, can you kind of tell the committee whether the Air Force problem of complying with the 50/50 law is indeed much deeper and long term than is indicated by this recent waiver request?

General LYLES. Congressman Hansen, I think the answer and the comments that you have heard from Secretary Peters are really the corporate and right strategy for the U.S. Air Force. That is, we believe in 50/50. We are going to do everything we can to make sure we don't violate the law. I just became aware of that letter that you referred to just today, and we need to go back to make sure that all of our people understand that this is something that we are serious about, and we are going to already have initiated the sort of processes to make sure we look at any sort of activity that can potentially move workload and give us a situation where we knowingly, or even unknowingly, violate the law.

The bridge contracts were a situation, I think everybody understands, we were somewhat forced into that situation because of the readiness posture, in part. We literally underestimated what it would take to move the workload from Kelly and also from Sacramento. The bridge contracts allowed us to remedy that situation and help our readiness.

We cannot allow any systemic sort of processes out there to take the workload away from us and violate the 50/50, so we will be watching that very, very closely. I know who signed that letter, and I will be talking to that individual very soon.

Mr. HANSEN. Thank you, Mr. Chairman. May I ask another question?

Mr. BATEMAN. Certainly.

Mr. HANSEN. Thank you, Mr. Chairman. Admiral, a great concern in my mind—and I guess it is because of my visits to Puerto Rico as Chairman of the Public Lands and Parks Committee—is this problem in Vieques. Do you have another place, General, where you train with live fire in coordinated areas on the East Coast?

Admiral PILLING. Where we can do all of the combined training?

Mr. HANSEN. All of the combined training.

Admiral PILLING. No, sir, there is no place that we know of on the East Coast. We have a commission to study this by the Center for Naval Analysis to look at alternatives if we have to leave Vieques as a result of the referendum the states place next year.

Mr. HANSEN. Is it a true statement, then, that you are sending out people that really haven't passed the final test, so to speak, in your carrier battle groups and your Marine people? Would that be a correct statement?

Admiral PILLING. They are—we have three destroyers that have just deployed, the battle group that is on its way into the Mediterranean. They are on their way up to Cape Wrath in Scotland to try and finish up the naval surface fire support that they couldn't do at Vieques. They are up there now. They are at 15-foot seas, and it doesn't look like it's going to be a very easy task for them to get qualified up there, so we are not getting the training we need.

Mr. HANSEN. No disrespect to the kind of agreement that you folks are working out with the folks in Puerto Rico, but there's 48 states that we do live firing in right now, and I would feel it would be a terrible precedent if we have to now take a vote on live firing on where you can and cannot do it as if it would follow along with the suggestion that has been put forth.

I was down there at one time as Chairman of Public Lands and Parks, and a large developer said I can't see a place in the Caribbean that would be greater than this to put in beautiful beaches and all that type of thing.

I hope those folks down there don't get the idea that they are headed that way. I personally feel that this is a grave mistake on the part of the Administration, and it should be put back just as it was prior to that time, and I further think the Justice Department is making a terrible mistake when you've got people that are trespassing in an area that they don't go out there and tell them they can't disobey the law. I mean, that would happen any other place.

General Lyles knows, just west of the Ogden Air Logistics Center, we have an area called the Utaques Training Range. It is huge. It's one of the biggest ones around, clear air space to 58,000 feet. Now recently some of the environmental people are saying well, we ought to go out there and camp there, they won't throw us off.

They did that, and they just about closed down Hill Air Force Base, because what could we do? I can't believe, Mr. Chairman, and I say it respectfully, that this Administration is not going down there and making people obey the law. I further can't believe that they are going to the point that they are going to say fine, you can vote on it, and if you vote to let us bomb you, we will give you \$40 million.

Well, my goodness, the island itself is probably 200 to \$300 million, and frankly, I think this committee or the committee ought to do something that is more dynamic to put this situation back as it was prior to this political fiasco we have gotten into.

Thank you, Mr. Chairman. Is that clear enough? [Laughter.]

Mr. BATEMAN. I would take issue with the gentleman in one respect. You said you would respectfully disagree. I am not even into—

Mr. HANSEN. Did I say respectfully? I apologize.

Mr. BATEMAN. I am not even respectful in my disagreement with the ridiculous position that this Administration has taken and the incredible mess that we've gotten ourselves into vis-a-vis Vieques. It is as bad as, I believe, we are giving them \$40 million if they

vote to let us bomb them, and then we will give them \$50 million more. There is no other place that is under the sovereignty of the United States of America where our national security needs require a local referendum of voters before our national security interest can be pursued and protected.

I think it is outrageous, just as the gentleman from Utah did, but we will pass on now to Mr. Pickett.

Mr. PICKETT. Thank you, Mr. Chairman. Gentlemen, welcome. Good to have you here today. The quality of life issue for our people is very important, because it has a lot to do with retention and recruiting. I know we talked a lot about several things, of housing and health care, and the resale system and things of that sort.

One thing that hasn't gotten much attention in recent years I think is the DOD's school system for the military families that are stationed overseas, and how do you all believe that this is working, and what kind of feedback are you getting from the military people whose children are attending these schools overseas?

General KEANE. I'll lead off, if you would like. We have had feedback on the DOD school system. It runs a spectrum. Our soldiers and families in Korea feel the school system is adequate. Our soldiers and families in Europe have challenges with the school system. The staffing, they indicate, is not what it should be. They also indicate that some of the facilities that they are having to send their children in are decaying and are not the kind of adequate facilities that you would want to send American children to school in.

The CINC in the European command, I don't want to speak for him, but I will tell you that he came forward as far as the joint requirements oversight council and solicited support from the services for the DOD school system and identified to the services some of the problems that I just enumerated to you.

General LYLES. Mr. Pickett, let me speak from the Air Force's perspective. I think the schools and the quality of schools is a very, very important mission for quality life for our people overseas, and it is an area that our commanders over there are trying to address, and address in a very aggressive manner.

We are very, very pleased that our two commanders, primary commanders overseas, former General Johnny Jumper, used to be the commander of the U.S. Air Forces in Europe, and General Pat Gambol in the Pacific, both had taken strong initiatives to try to define a school improvement program. That's not the formal title, but that's essentially what it's all about.

It contains essentially four dimensions. Making sure that we have the right kind of technologies in our schools so that they can be up to date and get the right kind of information and teaching quality to our students; to make sure that the teacher ratio, the teacher-to-student ratio, is appropriate—we want it to be no worse than 18 to 1, which is sort of a national standard; it has been a lot worse in the past—to make sure we have proper accountability for the teachers, that they are properly certified, and to make sure that we are watching this and watching literally on almost a daily basis. They have made great strides as a result of this sort of school improvement program, and we now are going to make sure that we continue to support it and start monitoring and maxing funds to support that every year as part of our program.

Admiral PILLING. As you know, the Navy presence overseas, permanent presence overseas, isn't very great; but in referring to the JR review that General Keane mentioned, the staff sort of used several methods to look at the schools, particularly in Europe, because that was where the CINC, the CINC over there, was complaining about.

On the matrix of scores on tests and costs per student, the DOD schools overseas were better than the average in the United States. They were not as good as Fairfax County, and so that was where the rub is. The CINC clearly would like them to be as good as we find as a relatively well-off part of this country.

Mr. PICKETT. Thank you very much. I don't know if you want to add anything.

General DAKE. I would only add that in Okinawa, where the preponderance of Marines are forward deployed, the DOD schools are very important to us. My children went to each of those, a boy and a girl, and they graduated from these schools, so it's important, and high quality at least in the Pacific. We don't have the experience with the European schools.

Mr. PICKETT. I know that there have been some comments about the backlog and the maintenance of real property, and there appears to be a continuation of a backlog in having available enough spare parts; and there is also, there appears to be a backlog in the depot maintenance in all of the services, but I would like to ask each of you, if you were able to get more funding for your respective services, where would be your first priority for funding in the year 2001?

And I say that in looking at this three-year comparison I see here, it looks like it has been pretty nearly a flat level funding over the past three years. I don't see how you are making it when you take into account the inflation, even though the inflation is perceived to be modest. I don't know how you all can make it from year to year on the same dollar amount.

But could you tell me what your first priority would be if you get more funding?

General KEANE. Yes, sir. Our first priority overall would be in the readiness account, to buy back one, to bring up Base Operations (BASOP's) up to 100 percent although it is funded higher than this year than it has been in the past, our RPM and also our depot maintenance account.

We are losing in the RPM business, frankly. The industry standard I think, as everyone knows, is about three percent to recapitalize, and the Army is somewhere around one percent, and we can't keep up with it is frankly the issue. I know Congressman Bateman mentioned 69 percent. That's the Army number.

Believe me, we would like to make that number higher, but given the other things that we must do as well, and try to balance an Army budget with the programs that we have to fund is a tough choice.

So our only answer, to be quite frank about it, is you have to increase our top one hit. We can't get there within this budget.

Mr. PICKETT. Admiral Pilling.

Admiral PILLING. Probably our first priority would be increasing the sources for recruiting and retention; but of the three categories

that you mentioned, I think spares in particular, aviation spares, would be at the top of the list. Second would be depot maintenance, and the third priority for us would be real property maintenance.

The first two are much more closely tied to deployed readiness because as you know, we put our emphasis on readiness.

General LYLES. Congressman Pickett, I guess our response would be very much in line with the under-funded priority list. The number one thing on that list is retention and recruiting initiatives, about \$60 million that we are asking for in the Unfunded Priority List (UPL), mainly because that is such a major dimension of readiness that you don't usually think about.

The other major items that are part of the UPL are base operating support, which is the day-to-day operations of our installations and facilities, and the RPM, which is another major dimension for, again, readiness, and third, the infrastructure guide log that you talked about earlier.

What's not reflected on the top ten for our unfunded priority list are spares; and the reason why is because with the help of Congress, we put about a billion dollars over the last year or so in getting our spares numbers back up, both in terms of Kosovo supplemental, additional money that the Air Force and Congress put its spares; and we are now waiting for the turn-around of the results of the spares increase that we funded over the last two years.

We put a premium, a higher premium on RPM, base operating support, and recruiting and retention because of that previous funding of the spares.

Mr. PICKETT. General.

General DAKE. We have an unfunded priority list of \$1.4 billion in 2001. That's all those four areas that I spoke about—personnel accounts, and in there I'm talking things from recruiting through those accounts; our infrastructure, which has been up there for our readiness, and in many cases, not so much on O&M that has been a problem, is we have taken it from accounts and moved it into our readiness accounts to keep our readiness high.

Modernization is our long-term readiness. We do believe in, of course, our legacy system, so the \$1.4 billion is straight across those four pillars.

Mr. PICKETT. Okay, thank you. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Pickett. Mr. Riley.

Mr. RILEY. Thank you, Mr. Chairman. Gentlemen, it is good to see you again. I have one question for General Keane. General Keane, we are about to make this transformation to a medium armed vehicle that you and I talked about in my office a few weeks ago. With the level of procurement the way it is today, and the shortfall that we have across the board that we have in all the services today, how do you plan on funding that, or do you essentially plan to take some some of the existing equipment that we have out there now, modify it, and make it into that medium category?

General KEANE. Yes, that was a tough question for us. We clearly, one, we recognize the need, we have to change and get a more responsive force so that we can move strategically. The issue is how do you fund it?

We had to take a look at our own equipment infrastructure and make some tough choices in our modernization program. We recommended to Congress to kill seven systems over the following years to give us some of the funding to start this program up, and also the restructuring of two programs, most notably the Crusader program and our Forward Scout combat system.

That was part of the strategy. The other part of the strategy was to obtain from Department of Defense and the Administration at least half the dollars to help get us started, and that contract was established. So that gets us going in the early years.

And our challenge will still continue to be there; because while there was savings from those programs that we are recommending termination for, most of the savings in those programs does not come until the later years, where the acquisition of those pieces of equipment lie. Right now, a lot of those programs are still in R&D, so there is not as much money there.

In the later years, it starts to pay for itself with the termination of those systems. So we are in a struggle, to be quite frank about it, to transform this Army with the kind of budget numbers that we have; and we had to do some of that, obviously, out of our own hide to be able to do it, to be very frank about it. And they were—every single one of those was a tough choice, because obviously we had a requirement for those programs or we never would have submitted that request to the Congress to begin with.

Mr. RILEY. Do we have equipment out there that is available today? And it seems like it just makes sense if you could take some of the equipment we have today and modify it, bring it back on line. You could do it not only cheaper, but you could also do it faster. I don't know that we have the time to make that deployment or that change in our—

General KEANE. That's a good question. We clearly are looking to design an objective force for the future, and we are putting that objective force in research and development right now, and providing some monies to do that, and also with the help of Defense Advanced Research Projects Agency (DARPA), we hope to get some technology answers in the 2003 time frame, and then produce the objective force in 2012.

What we are doing now is trying to acquire some of the characteristics of that force in the near term with off-the-shelf technology; but we made a decision ourselves, what we wanted was a fair and open competition, and we did not want to predispose ourselves to any of the technologies that exist out there to include some of those that we have been using ourselves, like 113 armed personnel carriers that have been in the Army ever since I have been a part of it.

So the companies that have owned those legacy systems, if you will, are part of this competition that we intend to take place in May and June, and also others who have provided other types of capabilities—for example, real capability solutions—to achieve this overall capability that we are looking for.

We wanted fair and open competition in an attempt to get the best available that is out there. That was our thought process. By doing that, it has taken us a little longer to get to that major competition; but we think in the long run it will better serve our sol-

diers and the American people if we have that fair and open competition.

Mr. RILEY. One more question, Mr. Chairman, if I can, is that I hope you will look at as we open this up to open and fair competition, I hope that the depots will be included in that competition.

One of the things that I particularly hope you will do is look at the partnering arrangements we have like the AIM-21 program in Aniston where you combine the best of both worlds, and I think it's very, very effective.

So I would encourage you as you go through this process, to tell everyone that is going to be participating in this competition to look at the options of partnering the way we did in Aniston on the AIM-21. I think it's a wonderful program.

General KEANE. Sir, we agree with you, and something that has not received much notoriety with the transformation strategy because inside the Army to a large degree and maybe even outside, we are a platform-center organization; and at times we can't help ourselves. We just have a tendency to look at these platforms that we have, and in which new ones we're trying to acquire, but an important part of the transformation is a recapitalization of our legacy force, and principally I'm talking about increased locality for our life force, and recapitalization of our heavy armored force.

We have made what we think is a critical decision, and that is to take the Abrams tank back to zero hours and zero miles. In other words, we would re-do that tank except for its hull, and obviously it will be digitized as well. We see that tank being around for the next 20 years, to be quite frank about it, as well as the supporting systems that are around in support of the Abrams tank.

So we intend to recapitalize a portion of our heavy armored force to make certain that we still continue to have that kind of overlap. If we have to go toe-to-toe with an adversary that has that kind of capability, we want to make certain that America has an Army that can defeat anybody else's Army with that kind of capability.

Mr. RILEY. Thank you, General.

Mr. BATEMAN. Thank you, Mr. Riley. Admiral Pilling, as recently as Sunday, I was on one of the P-3Cs, land-based P-3Cs, that you make reference to in your written statement. I want you to look into something for me.

Admiral PILLING. Sure.

Mr. BATEMAN. On at least that one, and I don't know whether it is characteristic of all of them, the toilet in the plane doesn't function, and there is some work-around substitute for it, and some of the most enormously skilled and talented people you have fly on that plane for up to 12-hour flights during their mission, and some of them are women, and this is a preposterous result, and even if it ends up with a scandal of an 800 dollar toilet seat, something needs to be fixed. Would you look into that for me?

Admiral PILLING. Absolutely, sir.

Mr. BATEMAN. Mr. Ortiz.

Mr. ORTIZ. Thank you. I have a question that maybe Admiral Pilling and General Dake can assist me. I have been monitoring the tragic accident that occurred in Vieques; and as we look to what the proposal has been, you know, when you have a lemon, all

you can do is make lemonade, and this is where we are at right now.

But what about the \$40 million that has been, that is going to be used for Vieques now? Is that coming out of an Office of Personnel Management account? Your overall maintenance account? Or is that a supplemental? How are you going to work this \$40 million?

Admiral PILLING. As I understand it, none of those dollars are in the defense budget. They are all in the budgets of the other agencies, such as Commerce and Transportation, and they are all focused entirely on infrastructure on the island of Vieques.

Mr. ORTIZ. I see.

That answered my question, Mr. Chairman. I don't have anything further.

Mr. BATEMAN. Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman. Okay, gentlemen, maybe you can help me on an issue. Yesterday I was out in the west and was talking to an officer of one of the Reserve units, and he got into this question of retention and recruitment, and he said "I really can't understand this." He said "they have lowered the tests of mental agility" or whatever you call that, and he said "on physical," he said, "I have these guys and I am always filling out forms because they can't do"—and then he listed it, and I can't remember what it was—what they had to do in a six-month period, and they had two shots at it, and if they didn't make it, they were out the door.

It was so many push-ups, had to run two miles and such—I can't remember all of them—and so we talked about it for a while, and he said "what if they had ten shots at it?" He said "I think some of them could have made it." But he said they just had those two, and he said so they can't do three more push-ups or sit-ups in that length of time, but why do we cut them out?

He said "If I gave them more tries, they could probably make it." I was sitting there wondering. I mean, I'm sure there's got to be lines drawn somewhere, and you have got to make some things. I remember when I was in boot camp when I was 18 years old; they were pretty strong on some of those things. We all had to pass that, and it was fine. It was kind of enjoyable when you are at the peak of your capacity, but some of these guys don't do those things, especially in the Reserve units.

I'm just wondering why those—you are lowering one, but you keep another one high like that with some folks that can't quite make it.

I'm speaking out of the other side of my mouth—I sound like a politician here—but I was also talking to an instructor pilot for helicopters for the Army, and he said he had been instructed to lower the grades that he would normally give so that he didn't flunk as many guys out.

Now, you've got to help me here. Am I wrong on both of those counts?

General KEANE. Well, Mr. Congressman, I don't know for sure, to tell you the truth. What I can tell you is certainly mental agility standards are not being lowered. Second, physical training standards are very important to an Army, as you can well imagine. We have to have certain levels of physical strength and stamina to

meet the requisites of the battlefield, and we clearly administer to our standards—to our people on a periodic basis physical training tests to ensure they are meeting those standards; and if they fail it, we give them a reasonable period of time so that they can pass this test, and also we give them some counseling to ensure they understand what is at stake here.

I will be more than happy to take a look at it, what's taking place with this organization; and maybe we could speak privately about who the organization is so I can focus in on it a little bit better.

Mr. HANSEN. Excuse me, General. He says he is losing five percent of his group every year, five percent because they can't do three more push-ups. You don't agree with that?

General KEANE. I can't speak to it. I have no specific knowledge. I will tell you this, and I'm not going to hide this from you, we have more challenges with American youth today than what we used to have in terms of their physical strength when they come to us. A lot of them are overweight, and a lot of them do not meet acceptable physical standards, and that's what basic training is all about; and then we have to maintain and sustain those standards over time.

For the most part, we are being very, very successful in doing that. I have to take a look at this thing and focus in on it to give you a much better answer than what I can here today, sir.

Mr. HANSEN. Are we lowering the standards at all on people who are flying aircraft or helicopters, these expensive airplanes we buy?

General KEANE. I have no knowledge of that. The only thing that we did, we did do this, in the last couple of years, we did cut back on the number of flight hours, flying hours that it was taking to graduate as a pilot in the Army. We are corrupting that, and we have discovered that what we wound up doing for ourselves is burdening the receiving unit, and they have to compensate by doing some additional individual pilot training that we reduced in flight school, initial entry flight school in the Army.

That's the only standard that I'm aware of that we moved away from, and we are putting that back to where it was. In our judgment, it was a mistake.

The other I'm not familiar with at all. I am not suggesting it may not have happened, but I just don't know the facts of it.

Mr. HANSEN. Thank you.

General LYLES. Congressman Hansen, we have not lowered any standards either from the Air Force, obviously, certainly for our pilots and the kind of training that they have to go through. But even though we are strapped for recruiting, we have also taken a stand that we are not going to reduce the standards for our enlisted folks coming into the U.S. Air Force.

We have been challenged as to why our rate of acceptance of graduates, GEDs, is lower than the other services, but we have made a conscious decision that we want 98 percent of our people coming in on enlisted force to have high school diplomas, not GEDs—only two percent GEDs—and we have decided to stick to that even though it would give us some marginal increase to our recruiting numbers if we were to lower it down to 95 percent, as an example.

We think it's the right thing to do, given the technical complexity of all the things we are trying to do in the U.S. Air Force, and we are going to stick by that, at least for the time being.

Mr. HANSEN. General Dake, would you like to respond?

General DAKE. Yes, sir, I would like to address a bit what we call the first term enlisted plan, so if people come in for a four year enlistment, we are concerned about the number of them which actually complete their full four years.

We have reduced those who had—we had about 58 percent of the Marine Corps was in our first term. We are a very young force. At 8,000 a year, 8,000 people—not each year, but 8,000 in our first term failed to complete it for various reasons. It could be physical fitness, it could be humanitarian, there could be a lot of other reasons why people do not make it through that first term of enlistment.

We think that is very important that we increase that. We have actually reduced our attrition by 22 percent. We think that's a combination of things that we have strengthened rather than reduced standards, that we have strengthened things like the crucible in our recruit training, that we have looked to the commanders to be more involved so that if there is a problem of a Marine in their command, that they personally get involved to make sure that everything is in fact done, not just by regulation, but also by that which makes sense to the readiness of their command.

We believe that 22 percent reduction equates to 1800 Marines which in our recruiters is about two battalions worth of Marines that we keep now that over the past five years, we would have been losing by those same rates.

So it is an important thing to have this first term enlistment, that they complete that; and we believe if you work hard at it and give command attention, you can make a difference, and we have done that without lowering any standards.

Mr. HANSEN. Okay.

Admiral PILLING. Let me just comment on the Navy. The only thing we have changed on entry standards in the last couple of years was during the drawdown as we were getting smaller, we required 95 percent of our recruits to have high school degrees. When we finished the drawdown, we went back to the DOD standard which we had maintained all through the 1980s of 90 percent high school degree graduates.

And on PT, physical readiness standards, we are changing our program right now. You take your test every six months, and if you have three failures in four years, last year we would have thrown you out. That's three failures in four years, so it's a year-and-a-half process.

We are going to change that this year to three failures in four years means you can't reenlist, but you stay until the end of your enlistment.

Mr. HANSEN. Thank you, General. I appreciate that. Thank you, Mr. Chairman.

Mr. BATEMAN. General Keane, during the course of the weekend, I met with a warrant officer in the Army, and if my recollection of the facts is correct, he was in Kosovo detached from his unit during

the course of a three-year tour in Germany, but six months of that tour he will spend in Kosovo.

He expressed a concern and a negative factor in whether or not he would be willing to stay in the service, that he would expect to go to another short tour, i.e., probably Korea, because he had a long tour in Germany.

Now, I think if that is anything like accurate, the Army needs to be refining the way it is looking at its personnel for purposes of reassignments. If he does a three-year tour in Germany, six months of which is in the worst of circumstances in Kosovo, that is not exactly the kind of thing that you then want to send your guy off onto another hardship tour.

So I hope the Army would be looking at kind of a reassignment policy, and not perhaps just assuming everybody who got a tour in Germany is equal to everyone else that has a tour that was supposed to have been in Germany, but ended up with part of it being somewhere else.

General KEANE. Yes, sir. I thank you for that question, and by the way, just many thanks for the time you spent with our troops in Bosnia and I know that you probably don't want any personal acknowledgement of this, but we truly appreciate the fact that you were on a patrol of soldiers and that you truly found out what it is like for them day in and day out.

For our soldiers who were deployed to Germany for a routine three-year assignment, it is almost a certainty that they will do six months, at least, and possibly longer, in Bosnia or Kosovo. It is also probable that they will do another six months in that three-year assignment as well.

What we are doing in our personnel management is to ensure that those soldiers, whether it is six months or two six-month tours, we have a safeguard in place to prevent them from going to short tour overseas assignments.

I'll be up front with you. About a year and a half ago, we had some of these problems, and I was the commander of some people that that was happening to, and we had to put these safeguards in place to ensure that the system would, that that would not happen.

So we think we have got that fixed, and it has been fixed for some time now. So that youngster can be assured he is not going to go on short term assignments, but he could possibly face another six month assignment—I don't know how long he has been in Germany as well—because that's the demands that are there.

Mr. BATEMAN. Thank you, General. Let me advise you, the subcommittee and the panel, that I have to go and make a phone call, and so I'm going to ask Mr. Riley if he would preside, and I also want the panel to be aware that I will have some questions that I want to submit to you for the record, and that Ms. Fowler, who has had to go to a leadership meeting, if she doesn't get back, she has some questions which she will be submitting for the record.

Mr. Riley, if you would.

Mr. RILEY [presiding]. Gentlemen, I just have one question, and this may be an oversimplification. First let me say that I'm glad we don't have these mental agility and physical agility tests for Congressmen. If we did, I don't know how well we would survive.

But when you look today at the reduced level of training like we have talked about in Vieques, our chiefs come in and tell us that we are \$84 billion short over the next five years, our OPTEMPO levels are probably the highest they have ever been in peace time. We have an almost critical manpower shortage in just about all of the branches.

This is a readiness committee. On a scale of one to ten, where is our readiness level today?

General KEANE. Well, on a scale of one to ten for the Army, we are somewhere around a seven or eight, I would probably put it at. When you consider all of what we're talking about in terms of readiness, you know, we measure readiness in a readiness report; and we are essentially looking at the numbers of people we have, the equipment that's there, and the training.

But in the Army, we would like to argue more that readiness is clearly more than that. It is some of the other things that we have discussed here. It is our base ops capability, it's our RPM strategy, our depot maintenance strategy, as well as the amount of ammunition that we have. It's what we have in war reserves that deal with all of those issues.

And personnel readiness, not just the numbers of people, but the quality of the life experience for our people is a factor in human readiness that's important in all the services.

So to be quite frank about it, we are challenged in those other areas, and that's how I would categorize it for the Army.

Admiral PILLING. For the same reason General Keane points out how difficult it is to put a single number on it, because the Navy deliberately under-resources non-deployed units so that all of our forward deployed units at the pointy end of the spear are C-1, C-2 units; on any given day we might have 40 to 50 percent of our ships and squadrons not ready to go.

So that would say we are somewhere around a five or six on a scale of ten. The easier way to describe it is in terms of risk, I think. The risk you have with the non-deployed force, the force that is in the integral and training cycle, if you have accepting contingency, that's a high risk contingency to get finished in the time lines that are laid out in the war plans.

General LYLES. I have to agree with Admiral Pilling. I think you need to look at this very, very complex equation in a lot of different ways. The number that we sort of attest to is about 6.5 to seven, and that reflects primarily our combat units and those that are at the C-1 or C-2 level.

But when you look at the definition of C-1 and C-2, it doesn't mean that we won't accomplish the mission, it means that the risk will be a little bit higher in accomplishing the mission, and we might make some trades and things like that to make sure that those units that are at the pointy end of the spear can get everything accomplished and do it very, very successfully.

But the best number we would have to say would be 6-1/2 to 7, and it reflects just those at C-1 and C-2.

General DAKE. Sir, the Marine Corps as a force of readiness, we sacrifice a lot to try to keep that high, so that our deployed forces are well-trained and equipped when they go. We have chosen to take risks in the reserve equipments that they do not have at their

home stations. That is where if you were to look at our ground equipments which the readiness is high—over 92 percent of those that's in our possession in the active side.

If we were to go to the Reserve side, that which they have on their stations would be above 90 percent as well, and that which is in the depots and waiting for call is where we have chosen to take some risk, so that is where we would find, if there were more funding to bring readiness up, it would go to areas such as that.

But I would also say that we are balanced in the C-1, C-2 category and we are holding costs; and, in fact, you will see an improvement from the one quarterly report that is referenced I think at the end of September or the beginning of September, and the one in December. We have actually had some units that will in greater number go to C-1 and C-2, so I don't know how to quite put a number on it for you, sir, but that's our sacrifice to move toward readiness.

Mr. RILEY. Gentlemen, if you can't put a number on it, I don't know how we ever will up here, and I guess that's what I'm trying to do. The last two-and-a-half years, we have constantly talked about all the problems, but until we get to a point that we can realize on this committee where we are, because the next question is if we are at fives and sixes and sevens now, where will be five years from now without a major, major infusion of capital?

General DAKE. Point well taken, sir, about my not putting a number on it so how can you. I think the answer that I would pose to that is that as we look at where we took the billpayers, that's where we would look for the funding in this case, in 2001 of \$1.4 billion to restore us to that which we believe is what is needed.

Mr. RILEY. Well, and I think that's what the chairman was trying to get to a little earlier. If we are at a six or a seven now without a major infusion of money within the next four to five years, where would you say that the Army will be five years from now if we are at seven now?

General KEANE. We'll decline.

Mr. RILEY. How much?

General KEANE. Probably one or two, I would imagine.

Mr. RILEY. So we will be down to fives.

General KEANE. Right. And clearly that, that is in the context of the total readiness complexity that I was talking about. It goes beyond just a report, and that's what your struggle is. There is no readiness report that will satisfy that question which you have asked. This is much more complex than that report.

Mr. RILEY. It is, and I think it's the complexity that keeps us from doing our job on this committee. There are so many things out there that we need to simplify this to a term that we can go out and we can sell it, you can sell it. If we don't, I think we will continue to go around trying to arbitrate various provisions, and not look at what is really required for overall force.

A few weeks ago we heard a report in the full committee about the train wreck that is coming, and I took the little book, the little pamphlet they gave us, took it home and read it. I will be honest with you. It was frightening, and I guess that's my point. If we were starting at a ten today, or a nine or a ten, four or five years from now maybe we would be down to a seven, but if you are tell-

ing me we are at fives and sixes now, and we have got this train wreck coming, especially with procurement, or the inability to have those procurement levels, it seems to me like unless we do something very drastic within the next year or two, you guys are going to have a problem that you can't, almost cannot control.

General KEANE. Congressman Riley, I think you're sensing a bit of frustration from all of us in some respects in how do we define this, and how do we define a good quantifiable number.

If you look as an example, I think all of the services are reflecting today; we're addressing people issues. We're trying to make sure we're addressing recruiting and retention. That helps readiness in the future. We are addressing things like modernization, which is future readiness. We are addressing readiness itself in terms of spares and things of that nature; and if we can keep that up, that will help us.

The one area that I think we all are suffering from, and that we're all concerned about, is infrastructure, and I'll be honest with you, I'm not quite sure if you're addressing three of the four, and not addressing the fourth, whether that means you will continue to go down, or you will level off, or slightly come up a little bit.

We're not quite sure of the exact science in this, and I can't give you a good quantifiable number, but I feel positive that at least three of the areas are being addressed positively.

Mr. RILEY. Let me give you one option. We all know the level of deployments we have all over the world with every one of your branches. At what time do we step up and say we can't continue to have all those deployments all over the world using up our men and our equipment? At what point do we go out and ask our allies to take a larger role?

If this Administration is not committed to adequately funding the troop strength that we have now, when do we, and how do we, talk to our allies about increasing their share of the burden?

General KEANE. Well, I'll take a stab at it, sir. First of all, in terms of the basic deployment that we're conducting in Bosnia and Kosovo, I think you are aware that our allies participated in both of those deployments as well; and certainly in Kosovo, for example, the latest deployment the Army is involved in with our 6,000 soldiers, clearly the sum of the allied involvement clearly exceeds the Army's participation.

I think our CINCs and the Chairman and our civilian leaders work towards that end, to get greater participation in these operations and deployment that we have around the world, and I think they have had some success with it. But I wouldn't hide from you that these deployments really take a toll on us.

I would say this, though. Our soldiers on these deployments that you visited, and Congressman Bateman and his colleagues have just returned from, our retention rates during those deployments go off the charts. The Army actually exceeded its retention objectives last year by 6,100 soldiers, and we're doing good this year.

We attribute a portion of that to the satisfaction and generally sense of self-worth and self-esteem that comes from doing something that's important and makes a difference in other people's lives, so those deployments, while they take a toll on family readi-

ness, there is also something special that is happening to the individual soldier that's participating.

What we have to do is make certain we are treating those deployments equitably for our soldiers, and we're not over-burdening them as well.

The other point I'll make to you is, I wouldn't hide this from you, I mean, we are looking at the Army in terms of its size. I mean, do we have the right size Army? Number one, we have to be able to recruit for the Army, and we do that. And we are being challenged by that. Last year we came up 6,300 short. This year we have made our recruiting objective in every single month to include this month, but we know we are going to be challenged in the next three months.

We believe we have to recruit for the size of the Army that we have. We're going to bring all of our war fighting divisions up to 100 percent strength by doing some things internal to the Army that we have been unwilling to do in the past.

Those will be tough calls for us, but we're going to take this readiness from a people perspective off the table and solve that problem for ourselves; and we do have a study ongoing in terms of what the size of this Army is based on the foreseeable future and the operational deployments that we're facing.

When we've got that answer, we will come back and present it to you as well as others, to the Administration. Thanks.

General LYLES. Congressman Riley, the Kosovo was a major lesson learned again for air power, and when I say air power, I'm not just talking about the U.S. Air Force, I'm talking about Navy air power, Marine Corps air power.

The United States did the bulk of the missions, obviously, from the air, and we have proved once again that our modernized capabilities across the board for the three services are very, very important for prosecuting successfully and efficiently that kind of contingency warfare.

We are starting, and have started for some time, to dialogue with our allies, to urge them to get precision guided munitions, to urge them to get more stand-off munitions, to urge them to get the intelligence surveillance, have platforms, even to urge them to get more airlift capabilities so we don't have to depend just on the United States to provide those, in those kinds of contingencies like we saw during Kosovo.

It's an uphill situation for them, obviously, and major investments that they will have to commit to, but we want to make sure that we are opening this dialogue and urging them to be prepared to take on some of these missions in the future.

Mr. RILEY. So have you met with any success?

General LYLES. At least they are listening and they're talking and within their budgets, to date, obviously, nothing that I could pinpoint, but at least they're talking about it, and I think to some extent, some of our allies realize that they were in somewhat of—I won't call it an embarrassing situation; they wanted to contribute more, and did not have the sort of platforms, and those I talked to, particularly the senior airmen in some of those countries, they realize that they're—they just need to stand up and be accounted for in some of these areas.

Admiral PILLING. Sir, if I could go back to your issue on single number characterization of where we are going, I think the chiefs have told you that if the OPTEMPO remains the same with the current force structure, and the current environment for people as far as recruiting and retention, the number is going to be \$84 billion.

Mr. RILEY. That's right.

Admiral PILLING. If you're going to try and balance near-term readiness and far-term readiness. It's \$84 billion.

Mr. RILEY. And I guess that's my point. There doesn't seem to be a consensus to try to find that \$84 billion. Without that \$84 billion, where will we be four or five years from now? That's what I'm saying. When I read this report and looked at our OPTEMPO level, the way it is today, if we don't drastically reduce that, if we don't make some of these procurements, if we don't get at least part of that \$84 billion, it seems to me like three or four years from now, our soldiers and our sailors and our airmen are going to be at extreme risk that I don't believe that we should put them in.

It is going to be up to you gentlemen to sell this, and that's what I'm saying. I think sometimes we make it so complicated and so complex in these hearings when we talk about each individual thing that is going on, that it's hard to understand how dramatic this change is going to be unless we do something relatively soon, and I see no sentiment in the Administration to make that happen.

And like I said, it is beginning to frighten me. When I talked to people on Airborne Warning and Control System Aircraft (AWACs) last year, who had done already back-to-back six month tours, and he said I'm getting out of this. He said I've got two kids at home and I will not do it. I joined the Air Force to fly, and I love it, but I will not be gone from my children a year and a half at a time.

We've got to make some very critical decisions. We either cut back our deployments, or we put these young men and women at an unacceptable level of risk, as far as I'm concerned.

General DAKE. Sir, could I mention—

Mr. RILEY. Yes, sir.

General DAKE. Could I talk about deployments a bit? It is somewhat different on the part of the Marine Corps inasmuch as we are forward-deployed. It is a cycling thing that we do. We base our DEPTTEMPO on new Special Operations Crafts (SOCs) off of the East Coast, with 58 percent of the Marine Corps being in that first term.

They really joined to do something. They joined for some bit of adventure. We at least are seeing the stressors of constant deployments within our professional force, the ones who are beyond their first term, now they are called to go again and now their families are growing; that's where I think we must find balance.

There's two types of deployments, the types you do on a national basis, where you sail off and do the business of the nation, and the other that we generate ourselves to go to Twenty-Nine Palms, for example, to train up. Either way, that Marine is away from his or her family.

We try very hard to try to control the training deployments. We don't believe that the operational deployments that we have been

given, as long as they stay in an SOC that we are manned and equipped to do, we can handle that on a sustained basis.

We have got to control our own deployments for training and those types of things which are our own self-generating. Now, deployments outside of those scheduled ones are the ones that will become increasingly difficult to do.

Mr. RILEY. Gentlemen, you have a tremendous task ahead of you, you really do. The only thing that I would like to leave you with is just that each one of the branches, each one of you individually, are going to have to become strong advocates, strong proponents for additional funding or a reduction in deployments, because if not, I think that this country faces some perilous times ahead.

I want to thank you for your candid opinions. Thank you for the service you give to this country, and thank you for appearing before this committee.

Thank you very much.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

A P P E N D I X

FEBRUARY 29, 2000

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 29, 2000

RECORD VERSION

STATEMENT BY

**GENERAL JOHN M. KEANE
VICE CHIEF OF STAFF
UNITED STATES ARMY**

BEFORE THE

**SUBCOMMITTEE ON MILITARY READINESS
ARMED SERVICES COMMITTEE
HOUSE OF REPRESENTATIVES**

SECOND SESSION, 106TH CONGRESS

ON READINESS

FEBRUARY 29, 2000

**NOT FOR PUBLICATION
UNTIL RELEASED BY THE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES**

**STATEMENT BY
GENERAL JOHN M. KEANE
VICE CHIEF OF STAFF, ARMY
ON READINESS**

Mr. Chairman and members of the Committee, thank you for the opportunity to testify before you today on the readiness of the United States Army.

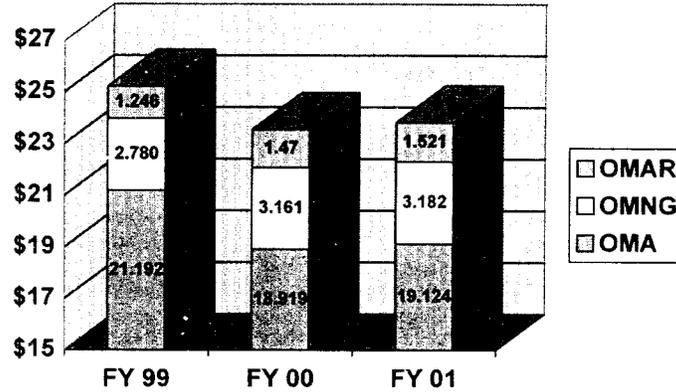
The United States Army is, without question, the preeminent Army in the world today. We enter the 21st century fully prepared to meet our historical obligation to fight and win the Nation's wars – whenever and wherever the Nation calls. We also continue to execute the National Military Strategy through numerous deployments, of both the active and reserve components, to conduct the full-spectrum of military operations in support of Smaller Scale Contingencies (SSCs). On any given day, the Army has more than 140,000 soldiers stationed overseas or deployed for training or contingency operations. The United States Army truly has been our Nation's force of choice during the decade of the 1990s. In the last ten years, the average frequency of Army contingency deployments has increased from one every four years, in 1989, to one every fourteen weeks, in 1999.

This unprecedented peacetime commitment of our Army is a reflection of the tremendous changes in the international security environment and America's unique role in the world today – it also presents new challenges to the senior leadership of the Army. Our warfighting Commanders-in-Chief rely on the Army to provide trained and ready forces, on short notice, to support their warplans. Additionally, our strategy of engagement places competing demands on those same forces to support a variety of missions – from civic and humanitarian assistance to training exercises and SSCs.

The natural conflict between supporting a two Major Theater War (MTW) scenario, and remaining engaged throughout the world, requires senior Army leaders to closely monitor the risk associated with these competing demands on our forces. Despite significant increases in the pace of operations, your Army is prepared to accomplish its assigned missions as outlined in the National Military Strategy, but not, however, without a measure of risk. We are able today to meet the requirements of the first MTW with moderate risk, but there would be higher levels of risk associated with fighting a second MTW. In this context, risk does not mean that U.S. Forces would not prevail; however, achieving our objectives could require a larger expenditure of our national treasure.

The Operations and Maintenance program for *The Army*, as proposed in the President's FY 2001 Budget Request, calls for total obligation authority of \$23.8 billion -- up from \$23.6 billion in FY 2000. This request allows the Army to meet its most compelling requirements, while focusing on the three primary aspects of our strategic vision: near-term readiness, people, and transformation.

Operations & Maintenance



*Figures in billions of dollars

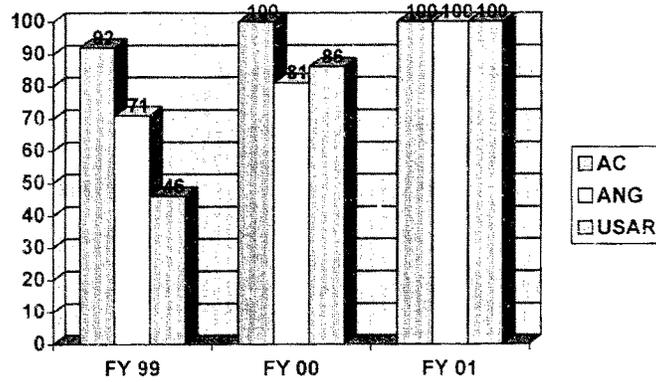
** When FY 99 figures are adjusted for CONOPS and other supplemental funding, the FY 01 budget reflects a continuation of upward O&M funding

TRAINING AND READINESS

Significant training and readiness programs in the President's Budget include funding for OPTEMPO and flight training, depot maintenance support, and recruiting.

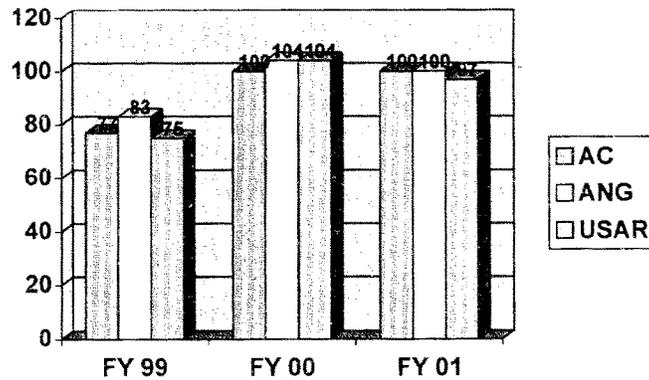
Ground and air OPTEMPO are key metrics used for measuring training resource requirements. The President's Budget Request funds all ground OPTEMPO requirements for the Active Component and Army Reserve, and virtually all requirements for the Army National Guard. Air OPTEMPO is 100% funded for all AC and ARNG units and 97% for the USAR. FY 2001 funding increases of \$62.9 million for institutional flight training will further enhance our aviation unit readiness by providing additional training seats for modernized aircraft. This funding -- in conjunction with 25, fully-resourced Combat Training Center (CTC) rotations -- provides our commanders with the resources they need to execute tough, demanding, combined-arms training that will keep their forces trained and ready.

Ground OPTEMPO



*Figures reflect percentage of requirement in dollars

Air OPTEMPO



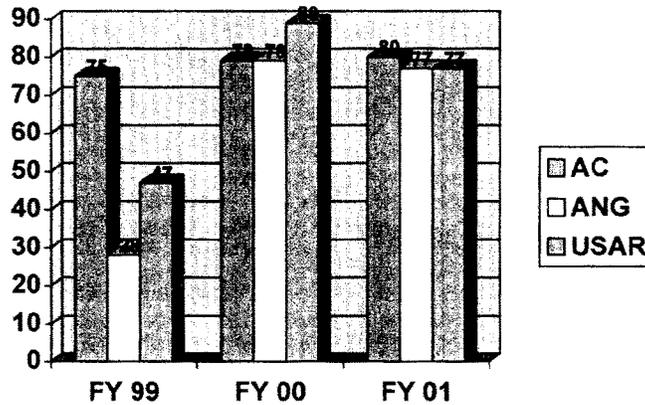
* Figures reflect percentage of requirement in dollars

In addition to the 25 fully-funded CTC rotations, both ground and air OPTEMPO programs are funded to support 800 miles per year (ground) and 14.5 hours per crew, per month (air). Embedded in OPTEMPO funding is the

cost of spares. The FY 2001 Budget increases OPTEMPO funding by \$70.1 million, due to changes in demand data for consumable parts and supplies.

Depot maintenance support receives an overall boost of 9% (\$56.8 million) in FY 2001, by providing more monies for aircraft, combat vehicle, and software depot activities. The Budget also allows for an increase in the AIM XXI Program from 90 tanks in FY 2000 to 135 tanks in FY 2001. However, overall depot operations are still only funded at 80% of requirements for the AC and 77% for the RC.

Depot Maintenance



* Figures reflect percentage of requirement in dollars

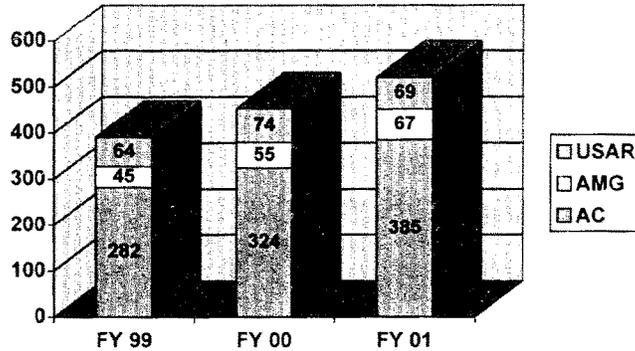
FY 99 was a difficult year for Army recruiting. By the end of the FY, the Army was short of its goal by slightly over six thousand recruits. Fortunately, our high retention rates allowed us to meet our endstrength requirements for the year. The Army exceeded its retention targets for FY 99 by achieving 109% of established goals, or nearly 6,200 soldiers.

To address these significant recruiting challenges, the Army has embarked on an ambitious program to tap into non-traditional markets and expand opportunities to serve.

The President's Budget supports recruiting and retention programs designed to meet Army end-strength requirements. Army recruiting and advertising efforts receive an overall increase in FY 2001 of \$68 million. The

President's Budget increases overall spending from \$453 million in FY 2000 to \$521 million in FY 2001.

Recruiting & Advertising



* Figures in Millions of dollars

Overall, The President's Budget provides the necessary resources to meet our most compelling training and readiness needs; we incur some risk, however, in the area of depot maintenance support. By funding depot maintenance activities at 80 % of requirements, the Army will be forced to defer maintenance and upgrades to some of our major combat systems, thereby increasing the likelihood of reduced Operational Readiness rates and affecting availability of these systems for training.

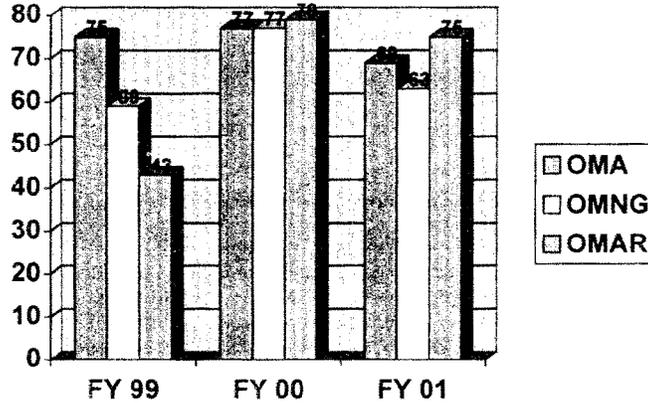
QUALITY OF LIFE

Adequate funding for Quality of life programs -- for our soldiers, their family members, and our Department of the Army Civilians -- is an essential aspect of readiness. The President's Budget addresses quality of life issues by funding Base Operations Support accounts at 96% of requirements, providing funds for continued barracks upgrade, and providing for a 3.7% pay raise for our civilian workforce.

Real Property Maintenance (RPM), however, remains underfunded for all three components in FY 01. While the Budget provides \$1.746 billion in RPM funding -- thereby sustaining the actual dollar levels achieved in FY 00 RPM increases -- RPM requirements for all three components in FY 01 total \$2.539 billion. This deficit results in funding at 69% of requirements for the AC, 63% for the National Guard, and 75% for the Reserves. The Budget does allow the Army to stay on track to complete barracks upgrades to the "1+1" standard by FY

2008, but the risk associated with RPM shortfalls could result in higher future costs, due to deferred maintenance and renovation of older facilities.

Real Property Maintenance (RPM)



* Figures reflect percentage of required funding

TRANSFORMING THE ARMY

In light of the incredible changes that have taken place since the end of the Cold War, Secretary Caldera and General Shinseki have crafted a new vision for the Army. The Vision, expressed in the phrase: "Soldiers on point for the Nation...Persuasive in Peace, Invincible in War," embraces the full-dimensional nature of our mission and our responsibilities to the Nation. We realize that we must safeguard our capability to defeat any adversary – at any time and at any place. We also realize that we must provide the national command authorities with a decisive land force that is capable of responding to crises and conflicts before they escalate beyond our ability to affect an outcome favorable to the interests of the United States. To that end we have developed a strategy that will transform our Army into a force that is more responsive, deployable, agile, versatile, lethal, survivable, and sustainable. We call this force the Objective Force.

We are developing a Transformation Campaign Plan that will detail the conversion of our Army to the Objective Force for the future, while still preserving our ability to meet the requirements of the National Military Strategy today. In broad terms, the plan will establish a reduced, interim capability, in the near-term,

that features some of the characteristics we want in the Objective Force, while simultaneously pursuing a future, Objective Force that is more strategically responsive and dominant at every point on the spectrum of operations. The transformation strategy currently features three phases: the Initial Phase, the Interim Capability Phase, and the Objective Force Phase.

The Initial Phase began in October 1999, with the release of the Army Vision. The centerpiece of this phase is the conversion of two brigades at Fort Lewis, Washington into what we have termed initial Brigade Combat Teams (BCTs). The initial BCTs will validate the organizational and operational models for the Interim Force brigades and provide an initial operational capability in the fiscal year 2001 (FY 2001) timeframe. To maintain our strategic hedge, we will continue to modernize our current forces through recapitalization and programmed fieldings.

Once the initial BCTs are validated, we will begin the Interim Capability Phase. During this phase, we will field Interim Brigades that employ off-the-shelf systems and are structured based on the lessons we learn from the initial BCTs at Fort Lewis. The Interim Force will possess as many of the characteristics of the Objective Force as possible, given the limitations of available technology. We will replace the surrogate combat vehicles we use to equip the initial BCTs with an Interim Armored Vehicle – an undetermined, off-the-shelf system, which the Army will begin procuring in FY 2000. The IAV will be used in our Interim Force units until we field the Objective Force.

At the same time, we will retain portions of The Army as we know it today—the Legacy Force—and modernize it through recapitalization and fielding of new, already-programmed equipment. Thus, the Legacy Force will maintain the capabilities we currently have, to maintain warfighting readiness, to retain our ability to execute the National Military Strategy as the transformation goes forward.

The Objective Force Phase will begin when technology allows us to field systems that will give our Army the desired characteristics described above. General Shinseki has asked the research and development community to look for leap-ahead technologies that will enable the Objective Force to be lighter, more strategically responsive, and more lethal than our current forces.

ADDITIONAL O&M READINESS FUNDING (FY 95 - FY 00)

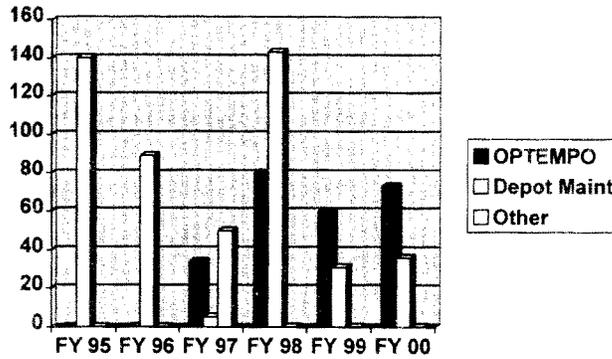
Since FY 95, the Army has received additional, targeted funding for readiness. This Committee has played a critical role in supporting Army readiness by recognizing the need to reduce the risk we have had to take in our past budgets. Three areas that have received additional funding over the past five years are contingency operations, OPTEMPO, and Depot Maintenance.

The Overseas Contingency Operations Transfer Fund (OCOTF), which Congress established in FY 1998, has had a tremendously positive impact on the Army's ability to preserve programmed OPTEMPO funding for the readiness of our combat forces. Prior to the establishment of the OCOTF, the Army absorbed significant costs associated with contingency operations -- to the detriment of modernization and operating programs. From FY93 to FY97, the Army transferred \$1.3B from other accounts to pay for contingencies. Since FY98, the Army has received full funding for all contingency operations. The OCOTF has helped the Army manage the effects of SSCs on the budget and eased the negative impact on our near-term readiness and equipment.

In addition to the OCOTF, the Congress has directed additional funding over the past six years of nearly \$300 million for OPTEMPO and BASOPS/RPM accounts. The Committee's continued support for readiness-related funding increases, programmed in the FY 00-05 FYDP, will bolster the Army's ability to field trained and ready combat forces in support of our warfighting CINCs.

Finally, the Committee has long recognized the need for a stable Depot Maintenance program. The aging of our Legacy systems places greater demands on our depot maintenance system. Since 1995, the Committee has provided an additional \$444 million for the Army's depot maintenance accounts. These additional funds relieved us from the requirement to migrate Operations and Maintenance resources from other accounts to cover shortfalls in depot maintenance.

HASC Readiness Funding Increases



CONCLUSION

For nearly 225 years, the Army has kept its covenant with the American people: to fight and win our Nation's wars. In all that time, we have never failed them, and we never will. Building and maintaining an Army is a shared responsibility between those of us in uniform, the Congress and the Administration, and the American people. With the help of the Congress and the Administration, we have kept the Army ready to meet today's challenges. The President's FY 2001 Budget Request provides the minimum, required resources for near-term readiness, and begins to set the conditions for transformation of the Army. Approval of the non-offset Kosovo supplemental will also allow the Army to execute its missions around the world and remain trained and ready to defend American interests wherever they are threatened.

Thank you, Mr. Chairman and distinguished members of the Committee for allowing me to appear before you today; I look forward to working with you on these important issues.

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

STATEMENT OF
ADMIRAL DONALD L. PILLING, U.S. NAVY
VICE CHIEF OF NAVAL OPERATIONS
BEFORE THE
READINESS SUBCOMMITTEE
OF THE
HOUSE ARMED SERVICES COMMITTEE
ON
O & M Budgets
29 February 2000

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

Introduction

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you again to discuss the Navy's readiness. We share a common goal - maintaining our Navy ready to protect our national security and interests around the world, today and tomorrow.

I would also like to thank you for your continued support in keeping our Navy not only ready, but relevant to future challenges. In particular, the Kosovo Emergency Supplemental and Fiscal Year 2000 Defense Authorization Bills begin to address many of our most pressing needs. Clearly, last year's pay triad and compensation initiatives were significant first steps in recognizing the many contributions and sacrifices of our dedicated Sailors and Marines.

Looking Ahead

Looking toward the future, we will continue to balance the readiness of today's Navy with modernization and re-capitalization for the Navy of tomorrow. We have recently worked with the Marine Corps to develop the organizing principles by which new naval concepts and capabilities will contribute to U.S. access and influence. This maritime concept is built upon two fundamental concepts: the enduring role of our forward presence...and knowledge

superiority, an emerging aspect of our operations that is truly transforming the Navy.

The enduring Navy-Marine Corps contribution to national security is combat-credible forward presence. Naval forces present and engaged forward -- where our most vital economic, political, and military interests are concentrated -- routinely provide a framework of security and stability that helps other instruments of national power to shape regions of interest. During crisis or conflict, forward-deployed and forward-based naval forces are positioned for timely response. This same Navy-Marine Corps team, at the "tip of the spear," can enable the projection of joint and combined power into a theater of operations.

The Navy is building upon this expeditionary tradition, while at the same time transforming into a "network-centric" and "knowledge-superior" Service. Knowledge superiority is the achievement of a real-time, shared understanding of the battlespace by warriors at all levels of command using high speed, high capacity networks and sensors. This understanding of the battlespace will ensure our ability to remain forward by providing the means for timely and informed decisions...inside any adversary's sensor and engagement timelines. Knowledge superiority

will allow us to more effectively shape an engagement during peacetime. It will also provide naval forces awareness of the threat and the ability to synchronize our actions for confident and timely combat operations.

Navy Today

That said, today's Navy is the most capable in the world and continues to demonstrate forward deployed readiness in meeting America's security obligations across the globe. Today over 45% of the Fleet is underway engaged in nine exercises. 48,530 Sailors in the USS JOHN F KENNEDY, USS DWIGHT D EISENHOWER and USS JOHN C. STENNIS Carrier Battle Groups, USS BATAAN, USS WASP and USS BONHOMME RICHARD Amphibious Ready Groups, are currently on station enroute to or in the Mediterranean Sea and Arabian Gulf, ready to directly and decisively influence events ashore from the sea.

During ALLIED FORCE Marine and Navy aircraft flew thousands of combat sorties as part of the air campaign, suffering zero losses and achieving remarkable levels of precision. 218 Tomahawk Land Attack Missiles (TLAM) launched from surface ships and submarines struck some 45 percent of key command & control and politico-military infrastructure targets during the campaign. Also, TLAMs achieved a more than 80 percent success rate against

assigned targets in all-weather conditions. The only standoff electronic warfare aircraft available to NATO forces, Navy and Marine Corps EA-6Bs accompanied all U.S. strikes -- as well as those flown with allies -- in over 1,600 missions. Land-based P-3Cs, carrier group-based S-3B aircraft, and SH-60B helicopters maintained a continuous anti-ship combat patrol in the Adriatic Sea throughout the campaign. Furthermore, land-based naval aircraft flew more than one-third of all reconnaissance missions despite constituting only 20 percent of the reconnaissance platforms in-theater.

The Navy has successfully responded to the increasing number of world wide smaller-scale contingency operations (average increased from 5.4 operations per year 1988-91 to 12.25 per year 1996-99) ranging from the ongoing mission of Operation Southern Watch patrolling the no-fly zones over Iraq to Operation Allied Force in the Balkans. Today's Navy continues to demonstrate its versatility and unmatched capability in support of the nation's military strategy.

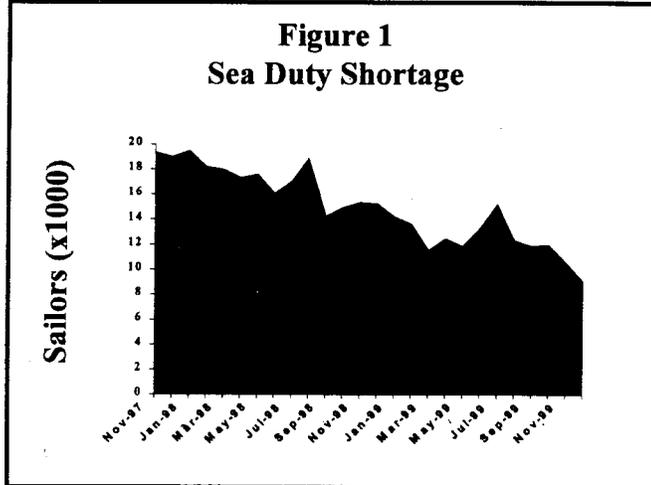
To ensure the Navy continues to be a viable force today, as well as tomorrow, we must accomplish three important and formidable objectives: First, we must continue to attract and retain high quality people; second, we must continue to improve the readiness of our deployed

and non-deployed forces; and finally we must invest for the future. Our investments today in science and technology, modernization, and recapitalization programs translate into tomorrow's capabilities and ultimately determine whether or not we will be able to effectively deter and, if necessary, counter successfully the threats of the future.

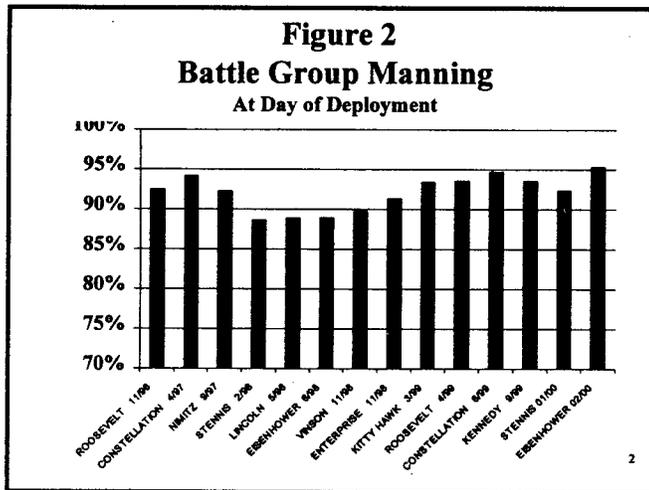
Personnel

The most critical ingredient for the continued success of the Navy remains our people. The men and women of today's Navy are the finest that have ever sailed the oceans. They have served with distinction and great sacrifice during the uncertainty of downsizing and increasing operational requirements. Our readiness posture is wholly dependent on attracting and keeping high quality, motivated, and trained Sailors, even as the Nation's strong economy continues to pose significant challenges in recruiting and retention.

Last year's focus to increase the number of recruiters (from 3500 to 5000 today), improve recruiter support, re-open closed stations, and increase our advertising budget, all with the assistance of this committee, resulted in the Navy meeting the FY99 recruiting goal. As always, the months ahead, February through April, will pose a continued challenge for our dedicated recruiters.



We are seeing an improvement in our at-sea manning. As seen in figure (1), the number of gapped at-sea billets has been reduced from a high of over 18,000 in 1998 to

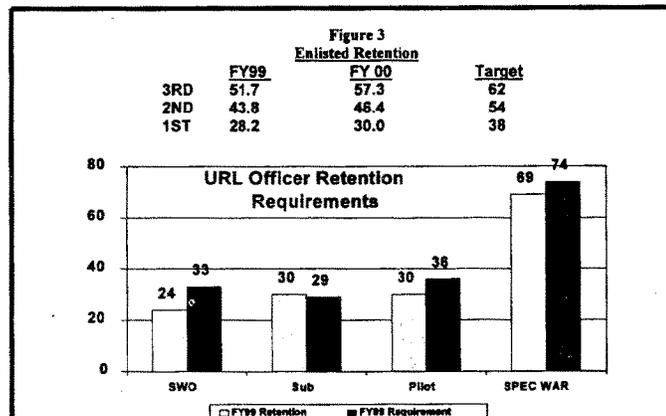


approximately 9,200 today.

The reduced at-sea manning gaps are further illustrated in figure (2) by the improved deployed Carrier Battle Group (CVBG) manning. We are guardedly optimistic that these manning level trends will continue to improve.

Nonetheless, the propensity to join the military has stabilized at a historically low level. Unemployment is at record low levels, the youth population remains stable, and college attendance is increasing. The Navy, like the Air Force and Army, is facing the same extraordinary recruiting challenges, as each continues to compete against the other for the same candidate pool.

Retention continues to be problematic. Although we are seeing some recent improvement, retention rates in all categories remain below our steady state targets. In particular, retention of enlisted members and unrestricted line officers is below what is needed and remains a



significant concern, as shown in figure (3).

Although Navy met end strength requirements, FY99 ended with the lowest enlisted retention in twenty years.

The FY 2000 Budget provided for a 4.8% raise to base pay, restoration of the 50% retirement option, pay table reform, and special pays and bonuses, all of which are having a positive impact. These first steps will be key towards addressing our recruiting and retention problems. The Congress also authorized a thrift savings plan for our military members, with implementation contingent upon offsets in the mandatory spending side of the budget to compensate for the lost tax revenues that would result. That issue is yet to be resolved. We hope that the Congress can effectively deal with this issue during consideration of the FY2001 budget. We are hearing from our sailors that this is a significant compensation issue; implementation will do much to bolster the progress we have recently made in this area.

We continue to focus on additional efforts to improve the quality of life for our Sailors and their families. Initiatives such as Inter Deployment Training Cycle (IDTC) 25% workload reduction; military healthcare reform; increased enlisted advancement opportunities; and continuation of the SECNAV initiatives on improving "how we

live, work and fight" are examples of our commitment to improved quality of service.

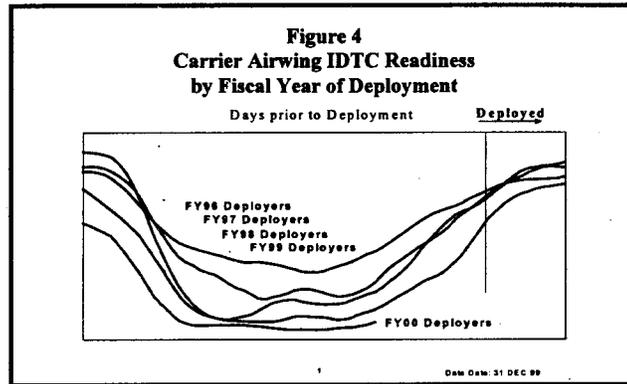
We are appreciative of the initiative by the Congress last year to accelerate the implementation of market-based BAH, and that initiative is fully funded in our FY2001 Budget. We are also encouraged by Secretary Cohen's initiative to reduce housing out-of-pocket costs from 18.8% to 15% in FY2001, and to 0% by FY2005. This is also fully funded in our program.

Finally, we are looking at requesting authorization to begin paying BAH to single E-4s stationed aboard ship, and to enhance Career Sea Pay (CSP) which has suffered significant erosion since first authorized in 1982. These authorizations would provide us with much-needed flexibility to boost retention if it remains below goals next year.

Current Readiness

Today, consistent with our tiered readiness posture, the readiness of our deployed forces continues to be excellent as validated by the performance of our forces in Operations ALLIED FORCE and SOUTHERN WATCH. My principal concerns remain with the readiness of our non-deployed forces in the IDTC.

The Navy's cyclical readiness posture can be represented by the now familiar "Readiness Bathtub," which illustrates by its depth and slope the readiness of our Airwings as they return from deployment and then begin work-ups (Figure 4).



The Navy faces a number of challenges in keeping its equipment ready for the next mission. Aging systems, spare parts shortages ashore, and high OPTEMPO are placing increased pressure on the material readiness of our platforms. The average age of our platforms has increased substantially since the mid 1980s, and will continue to increase throughout the FYDP. Surface Combatants average age will increase from 12.1 today to 14.6 in FY05; SSBN from 10.5 today to 14.7 in FY05; SSN from 12.3 today to 15.5 in FY05; CV/CVN from 19.4 today to 21.7 in FY05. The

Navy has taken aggressive action to address material readiness concerns. The funding that you provided over the last two years has assisted in restocking our diminished plane-side/Ship-board spares and depot level repairables. In addition the Kosovo emergency supplemental funding helped replenish the depleted stocks expended during Kosovo operations.

The use of live ordnance is a vital means of training our forces in combined arms operations in preparation for deployment. The inability to conduct coordinated live fires at Vieques from ships and strike aircraft is particularly detrimental, given that two of the last three East Coast deployers engaged in combat operations shortly after arriving in theater.

On 31 January, the President issued two directives that set a course of action to resolve the impasse over training on Vieques. When implemented, the directives will enable the Navy to resume its important training at Vieques, training that will keep our Navy strong and ready. They also provide for significant economic benefits for the people of Vieques. We are hopeful these directives will start a process to resolve this important issue.

Readiness remains a top priority and plays a critical role in our budget decisions. The Navy has a number of

reporting systems available that account unit readiness. The Status of Resources and Training Systems (SORTS) database, and AV3M (Aviation Material Maintenance Management) are two operational reports that units submit as an assessment of their readiness. From these reports we are able to determine unit readiness, which we report through various regular internal briefings to the Secretary of Defense plus the Quarterly Readiness Report to Congress (QRRC). We are also developing a monthly readiness report to assist in identifying readiness concerns. Current reporting indicates our deployed unit readiness is satisfactory, however non-deployed readiness continues to remain below goals. The fragile nature of readiness requires us to remain on the lookout for indicators and trends.

The budget before you includes the operational resources necessary to sustain the recovery process the FY 1999 Supplemental and FY 2000 Appropriation adds have helped to begin.

In the area of aviation, we have re-priced the flying hour program to better reflect the increasing operational costs associated with our aging aircraft. The FY 2000 and FY 2001 funding levels reflect actual FY 1999 experience, and are sufficient to train and maintain qualified aircrews

and achieve the Navy's goal of 85% Primary Mission Readiness (PMR) in all ten active carrier airwings and 87% PMR in the reserve carrier air wing. Operational costs above this level which may be required as a result of contingency operations are covered through the Overseas Contingency Operations Transfer Fund (OCOTF). Also, as a result of "lessons learned" in Kosovo in FY 1999, FY 2001 includes \$23 million in funding for spare parts and equipment necessary to establish one additional EA-6B squadron. Aircraft depot maintenance funding is sufficient to ensure that deployed squadrons have 100% of the necessary aircraft available, while non-deployers have at least 90%.

For ships, funds are adequate to achieve a ship OPTEMPO goal of 50.5 underway days per quarter for deployed ships, which is considered the minimum required to maintain a fully engaged overseas naval presence. As with the flying hour program, OPTEMPO funding beyond this level which may be required as a result of contingency operations is provided through the OCOTF. Non-deployed ships are funded to 28 underway days per quarter. This funding level ensures that the non-deployed force receives the necessary training required to help improve their readiness posture, while not imposing an undue burden during the IDTC.

While funding of the preceding key readiness areas is generally sufficient, there remain two areas of immediate concern - Real Property Maintenance and Ship Depot Maintenance.

Funding of our key readiness areas in FY2000 is generally sufficient, although there remain several areas of immediate concern. The across-the-board rescissions in FY00 were targeted to Real Property Maintenance within Operations and Maintenance to protect the flying hour and ship maintenance accounts that are critical to warfighting. This \$120 million reduction to needed maintenance for our decaying facilities is serious and needs to be replenished. Our FY2000 budget had funded Real Property Maintenance just below the 2% Asset Protection Index goal - a minimum level, given that industry standards are between 2% and 4%. The rescission has put us farther below this goal and will make it that much more difficult to turn the corner on the chronic deterioration of our bases. This is becoming a significant quality of life issue. Similarly, the Fleet Commanders are telling us that the ship depot maintenance account is also under-funded this year. While we have budgeted ship depot maintenance at our goal of 93.5% of notional requirements, the Fleet Commanders would like to see this higher given their appropriate focus on near and

mid-term readiness. Should additional resources become available in FY2000, they should be applied first to these and other readiness areas. These items are also reflected in the Navy's FY2001 unfunded prioritization.

Modernization/Recapitalization:

Looking to the future, increasing our investment to support the recapitalization and modernization of our Navy is essential to maintaining operational primacy. Adequate readiness can only be sustained in the future with a modernization and recapitalization program that delivers sufficient numbers of technologically superior platforms and systems to the Fleet.

We are continually pursuing initiatives that will lower our cost of doing business so we can maintain near-term readiness and still invest more in the future. However, our ability to realize efficiencies is not keeping pace with growing maintenance and other readiness costs for our aging ships and aircraft. As a result we were forced to compensate by shifting resources from modernization and recapitalization appropriation to operations and support areas. (\$1,295M in FY01)

Modernization enables our current forces to continue to be valuable warfighting assets in the years ahead while concurrently trying to mitigate escalating support costs of

aging equipment. Also, as technological cycle times are now shorter than platform service life, it is fiscally prudent to modernize the force through timely upgrades. Recapitalization is critical for three basic reasons: first, the risks to our future military pre-eminence require a prudent investment in new capabilities; second, the aging of many of our ships, aircraft, and vehicles, coupled with the added wear and tear associated with use, mandates their systematic replacement; third, the industrial base that supports our armed forces is still largely unique and, absent new programs, would likely not remain economically viable.

We need to invest now with a focused and expanded program to maintain naval superiority well through the first half of the 21st Century. With the help of the Administration and the Congress, our shipbuilding and aircraft procurement programs have improved since last year. However, they are still insufficient to sustain the force needed for the 21st century.

Our FY2001 Budget sustains our ship building plan of 8 ships, and 7.8 ships per year through 2005. This is approximately 1 ship per year less than the 8.6 ships per year steady state requirement. Likewise, our aircraft procurement is 128 aircraft in FY2001, less than the 140

projected last year, and significantly below the 150-210 per year requirement. Those shortfalls can all be attributed to affordability, and are reflective of the priority placed on our readiness and personnel accounts.

Chairman Spence has requested the Chief of Naval Operations' unfunded list, updated from last year, and that has been provided separately.

Summary

Today, as a result of the much appreciated efforts from this Subcommittee, we are the finest naval force in the world. With your continuing support we can ensure that the Navy remains ready in the future to influence directly and decisively, events ashore from the sea -- anytime, anywhere.

The past few years unquestionably demonstrate that the Navy plays a pivotal role in the protection of U.S. interests worldwide. Our assessment of the emerging threat indicates that the nation's reliance on a maritime force will not diminish as we enter into the new millennium.

Our operational primacy depends on the unwavering commitment of our Sailors. The recent pay raises and Quality of Life initiatives demonstrate a similar commitment from us, and are a step in the right direction. While your Sailors spend their days and nights securing our

national interests, we must continue to work together to secure the quality of life they so richly deserve.

My greatest concern remains that we must continue to maintain near term readiness at the expense of the future in order to sustain our forward-deployed presence. I cannot overstate this--we must increase our efforts to modernize and recapitalize the fleet. As I have previously stated, this will require additional resources and we will need your help.

Mr. Chairman, again I would like to thank you and this Subcommittee for all you have done for the Navy, and I look forward to working with you in the future. I will be happy to answer any questions the Subcommittee might have.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE HOUSE ARMED SERVICES COMMITTEE

SUBCOMMITTEE ON MILITARY READINESS

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MILITARY READINESS ISSUES

**STATEMENT OF: GENERAL LESTER L. LYLES
VICE CHIEF OF STAFF
UNITED STATES AIR FORCE**

FEBRUARY 2000

**NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

Mr. Chairman and distinguished members of the committee: I am honored to appear today, along with the other service Vice Chiefs, to offer my assessment of the readiness of the United States Air Force. On behalf of the Secretary of the Air Force, Mr. Peters, and Chief of Staff, General Ryan, I thank the committee for its vigorous and continued support of our Air Force, its airmen, and their families. In particular, I would like to thank you for enacting last year's National Defense Authorization Act, which instituted the largest pay and benefits increase for our airmen in 18 years. We are grateful for your diligent efforts to improve the quality of life for our U.S. servicemen who vigilantly guard our nation's freedom and security.

Because of consistent and steadfast support from Congress, today's Air Force stands prepared to answer the nation's call in a dangerous and uncertain world. We are ready to deploy and fight in major combat or contingency operations with little advance warning. Your Air Force is heavily engaged worldwide fulfilling all that's asked by our nation, and I'm very proud of them. However, we still haven't overcome the funding challenges of the last decade. General Ryan has testified consistently that the Air Force needs approximately \$5B per year across the FYDP. The FY00 budget, which proposed outyear increases for approximately one-half of that need, were a much-appreciated positive step as we attempt to improve the readiness of our forces. However, continued demands placed on our people and

equipment, aging aircraft, and constrained budgets continue to challenge our near-term readiness.

Globally Engaged in 1999

1999 was a busy year for the Air Force, but we're proud of our accomplishments. Last year, the Air Force was tasked more (by percentage of force) than in either Desert Storm or Vietnam. We employed over 500 aircraft and 44,000 airmen from our active and reserve components to Operation Allied Force. Our sustained combat operations equaled that of a major theater war, as the Air Force flew the majority of the NATO's 38,000 combat sorties. Our airmen delivered over 70% of the munitions, without a single person lost in combat. Today, Serbia's military has been expelled from Kosovo, an international peace force ensures stability, and displaced Kosovars have been returned to their homes.

In addition to combat operations in Kosovo, the Air Force was continuously engaged in nearly every region of the world. We conducted simultaneous air campaigns over northern and southern Iraq, flying over 18,000 sorties and employing over 1,200 munitions in response to Iraqi no-fly zone violations. U.S. Air Force aircraft conducted the overwhelming majority of these missions, flying 75% of the sorties, and delivering 95% of the precision weapons.

We provided over 900 personnel and flew more than 700 airlift sorties in support of Operation Shining Hope, providing civil engineering, logistics, and

security for many thousands of the more than 1.3 million displaced Kosovars. We participated in 84 international exercises in 95 locations throughout the world, including 15 exercises with Partnership for Peace countries, and nearly 300 focused military-to-military contact events. In addition, the Air Force flew more than 40 search and rescue missions, saving more than 200 lives in the flooding caused by Hurricane Floyd.

We're Becoming an Expeditionary Force

Today, we operate throughout the world with a 40% smaller force structure, and with two-thirds fewer overseas bases than only a decade ago. The uniformed Air Force of the year 2000 is the smallest in our history: 361,000 active-duty members, plus 106,000 in the Air National Guard and 72,000 in the Air Force Reserve, for a total of 539,000 airmen. As a result, on any given day, 90,000 airmen--almost 40% of the deployable active force--are operating outside the U.S. from 12 overseas bases and 16 forward operating locations. The Cold War garrison-style Air Force has been replaced by a largely CONUS-based, deployable force. Deployments have become a way of life for our airmen.

The Expeditionary Aerospace Force (EAF) concept represents a transformation from Cold War operations--changing how we organize, train, equip and sustain our forces to meet the challenges of today's global security environment. The EAF rotational structure organizes our active and reserve component

deployable forces into 10 Aerospace Expeditionary Forces (AEFs), employed in pairs for 90 days over a 15-month cycle. We implemented the AEF rotation cycle on October 1, 1999, and expect to be fully operational with the deployment of AEFs 5 and 6 on March 1, 2000. We're confident that the EAF will better meet the requirements of our theater CINCs for deployed aerospace forces while providing a measure of stability to the lives of our airmen.

Air Force People

The implementation of the AEF schedule is one example of our efforts to improve the quality of life our Air Force people--our most important asset. Our airmen are well-trained, motivated and ready to serve; we must show equal commitment to them with adequate compensation and quality of life. They have demonstrated their commitment and professionalism by meeting the challenge of a fourfold increase in operations tempo (since 1989) with a 40% smaller force. This intense demand we place on our airmen requires us to recruit and retain highly motivated, dedicated and professional airmen--they are our most critical component of readiness.

Because we train our airmen in high tech skills, we must continue to recruit the nation's very best, and then seek to retain them for an entire career. But as you know, we're recruiting in an increasingly difficult environment. The strong civilian job market, combined with the declining interest of American youth in a military

career, has created extra demands on our recruiting force. Although we recruited more people into the Air Force in 1999 than the year before, we still failed to meet our elevated recruiting goals.

We've taken several steps to enhance our recruitment efforts. After a top to bottom review, we're implementing a strategic plan to meet our future recruiting goals. We've increased our recruiting funding by \$8M in FY00 and \$20M in FY01 to expand our recruiting force; increase advertising; broaden awareness of the Air Force; and offer financial incentives to enlistees. With these initiatives, we hope to continue attracting the highest caliber young men and women into our ranks.

We are continuing to closely monitor the retention levels of our airmen. Although we missed last year's retention goals for our enlisted force, we are instituting several financial incentive programs to fairly compensate our airmen for their service. We have more than tripled the number of specialties eligible for Selective Reenlistment Bonuses since 1995. Now, approximately two-thirds of all specialties qualify for a bonus at some point in their career. In addition, with your help, we've enacted Career Enlisted Flyer Incentive Pay (CEFIP) to encourage enlisted aircrew members to join and remain in the aviation career field.

We've taken a number of steps to improve retention, many as a direct result of outstanding support from the Administration and Congress. The 4.8% pay raise (effective 1 Jan 00) is the largest in 18 years. Repeal of the Redux retirement plan,

pay table reform, adjustment of the Basic Allowance for Housing (BAH), and enhanced bonuses for pilots and other critical specialties will all go a long way toward closing the wage gap between our airmen and their civilian counterparts. As one indicator of the impact of these changes, the pilot bonus "take rate" improved by 15 points to 42% in FY99, indicating a reversal in the downward trend. We're continuing to monitor the situation, and looking for creative ways to address the major reasons why our airmen are separating.

Maintaining our Force Structure

Greatly increased deployments, aging aircraft, years of underfunding of spares, and low retention among maintenance technicians have combined to cause a 9.9% drop in mission capable rates over the Air Force fleet since 1991. Spare parts shortages, arising from the constrained budgets of the 1990s, were a major contributor to the Air Force's readiness decline over the past several years. Specifically, the not-mission-capable rate attributed directly to supply shortfalls increased from 8.6% in FY91 to 14% in FY99.

In FY99-01, Congress, DoD, and Air Force took specific actions to address our shortfalls in spare parts funding. In FY99 and FY00, Congress supported the spare parts recovery with an increase of \$194M and \$85M, respectively. Additionally, the Kosovo Supplemental added \$387M to spares for surge and reconstitution efforts. Consistently, DoD and Air Force committed to the obligation

authority to match these resources and to the \$382M required to resolve the bow wave shortfall that had accumulated over the past several years. Also, in the Air Force FY 00 and 01 President's Budget, we fully funded the spare parts validated requirement. Currently, we are completing the analysis of Kosovo lessons and a thorough review of RSP kit levels, and other spare parts levels, to ascertain the criticality of increases in this area.

Already, we're seeing evidence that not-mission-capable rates relating to spares (NMCS) are beginning to stabilize. The overall Air Force rate increased only 0.1% from FY98 to the end of FY99, even though we fought a major theater war in Kosovo in the middle of FY 99. We anticipate that the improved spare parts funding in the remainder of the FYDP will arrest the decline in MC rates. Nevertheless, the growing age of our aircraft inventory will require substantial and sustained funding of spares.

Today, the average age of our aircraft is 20 years, growing to 30 years by 2015. The time and cost associated with maintaining older weapon systems grows dramatically. Obsolete parts, structural fatigue, and corrosion due to age are increasing the time our aircraft are down for maintenance. If we are to continue to make readiness affordable, we must balance the cost of maintaining our current weapon systems against the requirement to modernize for tomorrow's readiness.

Infrastructure

Air Force infrastructure plays an important role in the readiness of our forces, but manpower and force structure reductions during the last decade have outpaced the drawdown of Air Force infrastructure. Spending scarce resources on unneeded facilities, combined with the funding of higher priority programs have caused us to underfund base operating support, real property maintenance, family housing, and MILCON. The emergency funding the Congress provided in FY99 for overseas MILCON projects was greatly appreciated, and we believe that future MILCON funding should continue to be directed to overseas bases--our most pressing infrastructure need.

Real property maintenance is a major concern, now being funded at a minimum sustainment level which is only sufficient to conduct day-to-day maintenance on our real property facilities and infrastructure. As a result, our backlog of repair and minor construction will continue to climb above today's \$4B. We cannot continue to mortgage the infrastructure area of our force readiness—where our force works and lives—without significant long-term effects.

Summary

Security in the 21st Century depends in no small part on continuing to provide aerospace power that gives this nation its rapid global reach, decisive power, and

constant vigilance. Our Fiscal Year 2001 budget program is based on sustaining our decisive fighting force through a balanced program that addresses today's readiness while fostering innovative solutions to the challenges of the future. In addition, we are taking positive steps to improve the quality of life for our most valuable resource--our people.

We are concerned about the overall state of today's readiness, and with the help of Congress are taking positive steps to correct deficiencies I've outlined above. We appreciate all that you have done to ensure that our Air Force is sufficiently funded to accomplish all that our nation asks of it. I look forward to working with this committee as together we address these critical readiness issues, and I would be happy to answer any questions that the committee might have.

**NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE**

**STATEMENT OF
GENERAL TERENCE R. DAKE
ASSISTANT COMMANDANT OF THE MARINE CORPS
UNITED STATES MARINE CORPS
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON MILITARY READINESS
ON
29 FEBRUARY 2000
CONCERNING
ADEQUACY OF THE FY '01 BUDGET TO MEET READINESS NEEDS**

**NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE**

Introduction

Mr. Chairman, Congressman Ortiz, and distinguished members of the House Armed Services Committee Subcommittee on Military Readiness, I greatly appreciate this opportunity to discuss with you the readiness of your Marine Corps and its important contributions to our nation. Let me first offer my sincere thanks to the Subcommittee, the Congress, and the Administration for the strong support for the fiscal year 2000 budget. We turned an important corner with that budget, and we will need to sustain the level of progress it represents. I can assure you that it was well received throughout the Corps and was seen as a strong and substantive measure by Marines and their families. Your support allowed them to benefit from the largest pay raise in 20 years. Our retirement system was strengthened. Our pay tables were overhauled. Further, we were able to slow the deterioration of our infrastructure.

Our Operation and Maintenance appropriation has received over \$850 million from Congress during the past five years. Through your sustained support of the Marine Corps' real property maintenance and base support accounts we have reversed the growth of our backlog of maintenance and repair. Support for our Initial Issue Program resulted in much needed improvements in the personal equipment our individual Marines will use in combat. Your support for equipment maintenance and individual and unit level training enhanced the readiness of our Operating Forces. These much-appreciated congressional additions, coupled with our annual budget requests, allowed us to address some of our most pressing needs.

A full decade after the dissolution of the Soviet Union, serious security concerns remain for the United States. The possibility of major theater war scenarios in the Arabian Gulf or in East Asia still represents a dominant national security concern. Additionally, the proliferation of weapons of mass destruction (WMD) and terrorism continues to be a major concern to our Nation's military. Terrorism has occupied a prominent place in conflicts throughout recorded history. The difference now is that terrorism, coupled with WMD, implies an enormous destructive potential serving to elevate these wedded concerns to a higher plane. Other, less traditional, security concerns are multiplying in areas ranging from information warfare to pandemic disease. There are possibilities for U.S. national security in all these areas. The need for ready forces that can react and fight across the spectrum of warfare is at an all-time high.

The Marine Corps Focus: The Operating Forces

As an expeditionary force in readiness, the Marine Corps is positioned to meet these security concerns. We do this by maintaining our focus on the readiness of our Operating Forces. This focus is best expressed by the significant contribution your Marines provide in meeting the demands of this increasingly uncertain world. For example, this past year alone, the 211,000 Marines of our Total Force participated in a wide range of missions; the most prominent of which were combat actions and contingencies in the Balkans, Iraq, and East Timor. Marines participated in humanitarian relief operations in Turkey, Central America, and South America. U.S. Marine Forces Pacific also continued its significant program of training and exercises in the Republic of Korea.

Marines are prepared to respond to a wide variety of crises with forward deployed and ready forces. They are embarked aboard the Navy's Amphibious Readiness Group (ARG) ships and stationed overseas ensuring U.S. presence and signaling our national resolve. While embarked as members of our Marine Expeditionary Units (Special Operations Capable) (MEU (SOC)) and their partnered ARGs, Marines conducted annual training deployments to South America, Africa, and the equatorial Pacific region. The numerous exercises and port visits associated with these forward presence operations facilitated professional military to military exchange of ideas and fostered a spirit of diplomacy and goodwill to the peoples of these vital regions.

Recent actions at home included hurricane relief operations in the southeast United States and continued support to federal, state, and local counter-narcotics activities. Our Chemical-Biological Incident Response Force (CBIRF), a unique military organization and a recognized national asset, remains prepared to assist state and federal agencies in responding to the possible use of weapons of mass destruction on American soil. In fact, we have proposed relocating CBIRF in the upcoming months, in order to increase its responsiveness to the national capital region.

Your Marine Corps Reserve makes an extraordinary contribution to the Operating Forces both at home and abroad. From operational tempo relief, such as their participation in Exercise Bright Star in Egypt, to leading much needed community projects in their hometowns, to providing irreplaceable civil affairs expertise in the Balkans, these Marines are among the best examples of the true strength of our nation's Total Force philosophy.

The Pillars of Today's and Tomorrow's Readiness

The Readiness of the Operating Forces is the Marine Corps' priority: all else flows from that desired end-state. The heart of our Operating Forces is the Marine Air Ground Task Force. Their readiness rests on four pillars: (1) people—Marines and their families, (2) "legacy" systems, (3) infrastructure, and (4) modernization. These pillars must remain strong and proportional so that the structure of readiness is solid now and well into the future.

People: Marines and their Families— Recruiting, Retaining, and Staffing the Force

Readiness, in relation to people, ultimately equates to recruiting and retention. Although the Marine Corps successfully met or exceeded our recruiting goals for the past 55 consecutive months, we do not take our success for granted. With 68 percent of Marines on their first enlistment, we are the youngest of the four services. Although it is not widely known, we need to recruit more young men and women into the enlisted ranks per year than does the Air Force.

The strongest employment opportunity in the history of the All-Volunteer Force, along with current enlistment propensity, combines to present enormous challenges to recruiters as they seek to win the war for talent. The success the Marine Corps has enjoyed is a direct result of the hard work and dedication of our recruiting force. However, this situation is far from ideal and is placing an unrealistic and disproportional burden on some of our best Marines. Adequate and sustained resources, in the form of recruiter training, recruitment advertising, enlistment bonuses, and Marine Corps College Fund slots, need continuance to provide our recruiters the necessary tools for success while lessening the stress placed upon them.

The Marine Corps is now forced to spend more money to attract adequate numbers of recruits. We invest approximately \$6,400 dollars per recruit and that cost is slowly rising every year. While this figure is substantially lower than the averages for the other services, it is still a significant amount of money. The services are in direct competition for recruits. To allow for fair competition, parity should be applied when allocating resources and emergency funds for recruiting. Otherwise, we risk creating an inter-service bidding war, with the taxpayer saddled with the extra cost in the end. Our recruiters also need access to the high school and college markets where we can offer the youth of America an opportunity to serve their country.

The Marine Corps is very mindful of retention issues and concerns. Some of the more technical military occupational specialties (MOSs) present our greatest retention challenges. The single most powerful tool to meet this technical MOS retention challenge is the Selective Reenlistment Bonus Program. Officer retention appears to be experiencing some modest improvement over last year. However, we are still concerned about the retention of fixed-wing aviators and Marines of all ranks in the intelligence and command and control fields.

Over the past several years, we have lost, on average, about 8,000 first-term Marines prior to the end of their first enlistment. Compliance with the Commandant's guidance to apply focused leadership at all levels on first term attrition and to more effectively plan and manage our First-Term Alignment Plan enabled us to recently reduce this figure by 22 percent. If we can sustain this effort, this should translate into reduced accession requirements for our recruiters.

Meeting our retention goals would be much more difficult if not for the recent quality of life enhancements that Congress made possible. The "compensation triad" of pay raises, Pay Table Reform, and REDUX elimination will have a positive impact. These actions and Secretary Cohen's recent initiative to further improve Basic Allowance for Housing rates to eventually cover 100 percent of the normal costs of housing are exactly the kind of weapons we need in our retention fight.

For many Marines, TRICARE ranks first on the list of needed improvements. Limited health care availability, poorly informed support staff personnel, and the out-of-pocket expense of today's TRICARE frustrate military families. We must have a health care system that is responsive to the needs of our beneficiaries, to include our retired veterans. This translates to a major retention and morale issue.

We are reviewing our practices in order to narrow the gap between our operating force structure and the manpower available to fill that structure. Through privatization or consolidation we have identified almost 2100 Marines who, beginning in FY01, will be returning to the Operating Forces. We are actively reviewing more billets for similar consideration. As we carefully review our force structure, we may yet determine the need for more Marines. Internal to Headquarters Marine Corps, we do not believe that we can sustain further reductions in our service headquarters and we will respectfully request a review of the congressional mandate to reduce service headquarters staffing.

Legacy Systems

The second pillar of readiness—legacy systems—requires continued attention to the maintenance and upgrade of equipment fielded during the last four decades of the 20th century. In many cases, this equipment is very old and increasingly costly to maintain. For example: Our refueling aircraft, the KC-130Fs, are 37 years old; our medium lift helicopters, the CH-46Es, are 31 years old; our basic all-purpose ground utility vehicle, the High Mobility, Multipurpose Wheeled Vehicle (HMMWV), is 13 years old. Additionally, our 5-ton trucks are 19 years old, our howitzers are 17 years old, and our Assault Amphibious Vehicles, which are critical to conduct forcible entry from the sea, are 28 years old and have already been the subject of a Service Life Extension Program. The temptation to minimize the amount of extra funds being spent on “legacy” systems in the name of saving for a future replacement must be avoided. The lives of our young men and women depend on this equipment.

Despite these challenges, the Marine Corps has managed to maintain a high level of material readiness in our Operating Forces, even in this resource constrained environment. Over the past three fiscal years, the active forces have averaged ground equipment readiness rates above ninety-two percent. However, we have sacrificed materiel readiness in other areas to achieve this impressive accomplishment. Our in-stores assets (other categories of supporting and sustainment equipment held at the depots) and sustainment equipment have felt the brunt of these past funding shortfalls. Low readiness percentages in these areas brought down the total average Marine Corps ground equipment readiness rate to just over eighty-three percent for the same period.

Overall aircraft material readiness in the Operating Forces stabilized from the downward trend that started in FY 94. The amount of time our fixed wing aircraft were down for maintenance decreased from 14 % in FY 98 to 12 % in FY 99, and the amount of time they remained down awaiting parts decreased from 15 % percent to 14 % during the same time period. In fact, even with the difficulties we encountered with our AV-8B Harrier fleet, we experienced a slight increase in overall aviation readiness from a total force mission capable rate of 73.1 % in FY 98 to 74.7 % in FY 99. This increase can be partially attributed to the recent spares funding increases we received. Despite these gains, we still face considerable challenges in aircraft material readiness in the future.

Maintenance down time equates to a lack of availability of aircraft for proficiency training, which ultimately impacts readiness. The maintenance costs for our aging fleet of aircraft are rising dramatically. The cost per flight hour rose 44%, from \$2,341 to \$3,360, between FY 96 and FY 99. This is due to the increasing cost for components and the decreasing mean time between failures. As is the case with our ground equipment, the price of obtaining spare parts for our aging aircraft is becoming costly. The solution, which will reduce the cost per flight hour, is to modernize our aging aircraft fleet with the V-22, KC-130J, and the Joint Strike Fighter.

Infrastructure

Our third readiness pillar—infrastructure—must not be neglected in the name of other accounts. Our bases and stations are so critical to the accomplishment of our mission that our Marines consider them an element of the MAGTF. We must ensure that they provide a safe working environment, are environmentally sound, and promote the overall training and well-being of the military and civilian workforce and families they host.

As with our legacy equipment, many of our facilities have suffered from deferred maintenance to help fund near-term readiness. We are carrying a \$685 million backlog of maintenance and repair (BMAR) for FY 00. We must reduce the maintenance backlog to approximately \$100 million by FY 2010 to meet congressional guidelines. However, the current funding in the Future Years Defense Program (FYDP) will initially stabilize the growth in the BMAR and then slightly reduce this backlog by 2010. Our current recapitalization rate is over 100 years. We have established a goal of adjusting our recapitalization rate to 70 years—a major improvement that is well within the bounds of fiscal responsibility. Infrastructure modernization will help us to realize important readiness benefits.

In an era of defense retrenchment, we must undertake the wisest course possible to conserve the real property we now own and, when necessary, to take on additional facilities. A prime example of this is the Blount Island Command in Jacksonville, Florida. This facility is truly a national asset that must be secured for long-term use. The peacetime mission of support to the Maritime Prepositioned Force that the facility provides is of exceptional value, but the wartime capability to support massive logistics sustainment from the Continental United States (CONUS) makes the facility strategically significant. In 2004, our lease of this facility will expire. In the near-term, we need the funds to secure the necessary easements to prevent further

encroachment against the facility. Our long-term strategy should be to purchase this key facility outright.

Finally, the issue of encroachment on our key training bases and ranges, both in CONUS and overseas, is a major readiness issue. We must retain our ability to conduct core training in an effective and efficient manner. At stake in this issue is the success and survival of our servicemen and women in combat. Closing or limiting the use of existing training ranges will come at the expense of the combat readiness of your Marines and Sailors. To mitigate this problem, commanders will be forced to use other training facilities. At a minimum, this will result in more time deployed, exacerbating an already heavy burden shouldered by the Marines and their families.

Modernization

Our fourth pillar—modernization—is what will best assure our long-term readiness. The impact of maintaining near-term readiness in the resource-constrained environment of the last decade has resulted in degraded mid-term and long-term readiness. The Marine Corps ground equipment modernization accounts were funded well below the historical, or "steady state" level of \$1.2 billion for the last seven years. During this time, we deferred roughly \$3.6 billion of much needed ground equipment modernization to fully fund near-term readiness. This extended period of underfunding has driven the recovery rate to \$1.8 billion per year for ground equipment modernization. While the increases provided in the current budget allows us to achieve the "steady state" level in this fiscal year, we do not attain the recovery rate within the FYDP.

The legacy systems we sustain will soon reach the end of their useful lives and be of increasingly marginal tactical value. In order to secure our viability in the future, our key warfighting systems—the MV-22, the Advanced Amphibious Assault Vehicle (AAAV), the Lightweight 155 mm howitzer (LW 155), and the Joint Strike Fighter (JSF)—must be procured in a timely manner and in meaningful quantities. Additionally, the Medium Tactical Vehicle Replacement (MTVR), the upgrade of the HMMWV, AH-1Z, and UH-1Y will provide us mobility, power and flexibility. The development of a four engine or 'quad' tilt-rotor (QTR) aircraft is of particular interest to the Marine Corps as a component of a future all-STOVL aviation fleet. Furthermore, we are striving to develop the appropriate mix of ground-based fire support capabilities, centered on the LW 155 millimeter howitzer to maximize the amount of fire support for Marines in the early phases of a combat operation.

The Marine Corps needs to accelerate its modernization. Given the government's most recent economic forecast for the upcoming decade, this presents us with an opportunity to provide a steady, measured increase in defense expenditure so we can transition to a modern 21st century military capability. This transition must be fully funded. Every year that our modernization needs are not addressed causes us to pour more people, time, and taxpayer's money into maintaining our legacy equipment.

As General Jones discussed with this committee last October, the Marine Corps is underfinanced in FY 2000 by approximately \$1.4 billion. The majority of this shortfall is associated with accelerating the procurement of critical ground and aviation systems. The details of these shortfalls form the basis of our \$ 1.5 billion in unfunded requirements for FY 2001. General Jones has already submitted to the full committee a detailed listing of our unfunded priorities. These priorities are shared among our four readiness pillars and revalidate the readiness concerns and shortfalls associated with each one. The most critical of these shortfalls include recruiting and retention initiatives, family housing, barracks and other quality of life programs in support of our Marines and their families. They include support for our legacy systems through depot maintenance and corrosion control. The Operating Forces need support to bridge modernization by updating existing aviation and ground platforms. Our infrastructure requires more resources devoted to military construction projects, the maintenance of real property, and acquiring the Blount Island facility.

Readiness Initiatives

Your Marine Corps is generating initiatives that will further enhance our readiness posture. For example, we are breathing new life into a former concept: the Marine Expeditionary Brigade (MEB). This valuable "middle weight" MAGTF capability, while never completely lost, is being given its proper emphasis and resources. A MEB has been re-established in each Marine Expeditionary Force. We are developing standards of performance and training programs for each, so that the MEB commander and his staff are well prepared to support a range of operations.

Additionally, we are reviewing the status of our most familiar warfighting MAGTF—the MEU (SOC)—to ensure its mission and structure are appropriate to the needs of the warfighting CINCs today, and in the future. We are also reviewing the status of our artillery and

reconnaissance programs because they suffered disproportionate reductions in the past decade. Our Marine Corps Security Force mission and structure are being examined, as well, to see if we can improve coverage and responsiveness to naval shore facilities and activities.

To have a clearer understanding of the implications of changes to the security environment, proposed structural reforms, and our future viability, your Marine Corps will continue to experiment aggressively with concepts, tactics, and technologies through our Warfighting Laboratory. Our objective is to modernize and transition to an Operational Maneuver from the Sea (OMFTS)-capable force—our capstone warfighting philosophy. We will continue to explore technologies that offer revolutionary promise in the fields of logistics, command and control, and aviation. Additionally, we will review our future airborne electronic warfare needs and begin to place funds toward the replacement of this vital national asset.

Our information systems capabilities provide tremendous benefit to our warfighters, but we are having a difficult time keeping up with their growing demands for fast, reliable communications. With new technologies seemingly introduced on a daily basis, systems can become quickly outmoded. During combat operations in Kosovo, the Marine Corps planned to deploy two F/A-18 Hornet squadrons to Hungary to help fulfill the NATO operational plan. Unfortunately, these Hornet squadrons operated the early 'A' model of the aircraft without the upgraded technology provided by Engineering Change Proposal 583, which enables our F/A-18As to operate more effectively with the NATO air command and control systems. As a result, the Marine Corps was forced to substitute two F/A-18D squadrons. This resulted in extra wear on these already frequently deployed aircraft and personnel. Our warfighting CINCs rightfully desire to field forces with the highest capabilities; however, these capabilities come at a cost.

By the end of this decade, the OMFTS-capable Marine Corps will offer potent new military capabilities to U.S. leadership. The concept of the Naval Expeditionary Force (NEF) will be fully developed, and it will be completely integrated with theater and national level command and control. We will continue to build a doctrinal bridge between the amphibious force and the Maritime Prepositioned Force, which will provide Joint Force Commanders and Naval Expeditionary Force commanders with a much wider range of capabilities.

Navy-Marine Corps Partnership

Our core competency is warfighting. The single best expression of this is our service doctrine, which is firmly embedded in current capabilities and changing strategic, operational, and tactical realities. Warfighting success in the 21st century environment depends on the feasibility of our OMFTS concept. Marines understand that OMFTS depends heavily on the Navy's enthusiastic cooperation and support. To foster this cooperation and support, the CNO and the Commandant co-hosted a Navy-Marine Corps Warfighting Conference in January. This conference was designed to stimulate professional interchange and lay the groundwork for doctrinal reform. The ideas and information exchanged among the senior leaders of the Naval Services at this conference will serve us well as we shape our Naval Forces.

Dedicated amphibious forces have proven their worth in peace and in war for six decades as either part of our Global Naval Force Presence Policy or as a forcible entry vehicle. We support the achievement of a 3.0 MEB lift capability through a strong amphibious ship building program. Current plans will bring the United States up to a fiscally constrained 2.5 MEB-lift capability by FY 08. Big deck amphibious ships remain a priority for the Marine Corps. We believe that the LHD-8 and successors to the aging Tarawa-class will play a pivotal role in realizing our OMFTS vision by providing a much needed upgrade in our amphibious ship lift capability.

In addition to amphibious lift, a credible naval surface fire support program is critical to maintaining a forcible entry capability. We have faced considerable risk in naval surface fire support (NSFS) since the retirement of the Iowa-class battleships and this risk will continue for the foreseeable future. Current plans point to the start of construction in FY05 for the DD 21-class Land Attack Destroyer, each to be equipped with two 155-millimeter naval guns. Additionally, the Navy has committed in the interim to installing the 5"/62 caliber naval gun on 27 new DDG-51 destroyers and retrofitting 22 CG-47 cruisers with the same system. Firing the Extended Range Gun Munition (ERGM), this gun will measurably improve our near-term NSFS capability.

Summary

Sustaining the readiness of our Corps remains our highest priority. Our challenge is to maintain our traditional high state of readiness, to be good stewards of our legacy systems and infrastructure, and to modernize our key warfighting equipment. Your Marines and their families sincerely appreciate the strong support shown them by Congress and the Administration in the fiscal year 2000 budget. Your United States Marine Corps stands ready to respond to the Nation's needs today, and will continue to work closely with the Congress and the American people to preserve our readiness and relevance in the future.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness,
Committee on Armed Services, House of Representatives

For Release on Delivery
Expected at
Tuesday
February 29, 2000

DEFENSE BUDGET

Visibility and Accountability of O&M Fund Movements

Statement for the Record by Norman J. Rabkin, Director
National Security Preparedness
National Security and International Affairs Division



Mr. Chairman, Members of the Subcommittee:

At the request of this Subcommittee, we are submitting a statement for the record in conjunction with today's hearings on the adequacy of the Department of Defense's (DOD) fiscal year 2001 budget request as it relates to readiness needs. Specifically, the subcommittee asked that we summarize the results of our analysis of the Operation and Maintenance (O&M) appropriations of active components and Defense-wide agencies from fiscal year 1994 through 1998. We issued a report on this work in February 2000.¹ The objectives of our work were to

- identify the aggregated differences between the amounts Congress initially designated² for O&M subactivities, (especially the readiness-related subactivities) and those DOD reported as obligated for the same subactivities;
- identify those O&M subactivities where DOD obligated funds differently than congressionally initially designated in each year of the 5-year period we examined (1994 through 1998); and
- assess information available to Congress to track DOD's movement of funds among O&M subactivities.

Since 1989, O&M has accounted for an average of 35 percent of the total Defense budget, making it DOD's largest appropriation group. For fiscal year 2000, Congress has provided about \$104 billion for O&M. O&M is directly related to military readiness because it provides funds for training troops for combat and for maintaining tanks, airplanes, ships, and related equipment. O&M accounts also fund a wide range of activities that are less directly related to readiness. These include many day-to-day activities such as civilian personnel management and payments, transportation, health, and child care. Congressional defense committees have expressed concerns about the extent to which funds that directly affect readiness have been reduced to pay for other O&M expenses.

To request funding from Congress, DOD divides its services' O&M budget requests into four budget activities: (1) operating forces, (2) mobilization, (3) training and recruiting, and (4) administration and servicewide activities.³ DOD further divides its budget activities into various activity groups, then again into subactivity groups. The number and names of the activity and subactivity groups differ with each service. Although Congress reviews DOD's budget proposal for the services

¹*Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements (GAO/NSIAD-00-18, Feb. 9, 2000).*

²We use the term "congressionally designated," "congressional designation," or variations of these terms throughout to refer to amounts set forth at the subactivity group level in an appropriation act's conference report. These recommended amounts are not binding unless they are also incorporated directly or by reference into an appropriation act or other statute.

³The Marine Corps is an exception with only three budget activities and does not include the mobilization budget activity.

and Defense-wide activities at the subactivity level, it makes appropriations at the aggregated account level—that is, for the Army, the Navy, the Marine Corps, the Air Force, and the Defense-wide O&M accounts. However, to indicate how it expects O&M funds to be spent, Congress designates in its conference report on annual appropriations acts, specific amounts for each subactivity group, Defense-wide agency, field activity, and program.

In addition, Congress has directed DOD to provide semiannual reports on transfers from certain high-priority readiness-related subactivities within the Operating Forces budget activity.⁴ Included in the reports are data on the funds moved into or out of these subactivities, as well as explanations of the movements.

SUMMARY

From fiscal year 1994 through 1998, DOD changed funding amounts for 245 O&M subactivities by almost \$43 billion compared with the amounts Congress initially designated for them. These changes included both decreases and increases to the amounts designated by Congress. DOD moved almost \$16 billion out of and \$27 billion into O&M subactivities. The changes made to these O&M subactivities accounted for about 12 percent of the total amounts initially appropriated for O&M during the period. Over half of the \$43 billion was moved out of or into (\$9 billion out of and \$13.5 billion into) 81 O&M subactivities DOD considers directly related to readiness, while \$10 billion was moved out of or into (\$5.5 billion out of and \$4.4 billion into) 28 O&M subactivities that Congress considers high-priority readiness-related.

Every year from fiscal year 1994 through 1998 DOD obligated a different amount than Congress designated for the same 63 subactivities. (See appendix I, tables 2 and 3 for details.) In total, DOD moved about \$19 billion out of or into these subactivities (\$6.2 billion was moved out and \$12.6 billion was moved in). About \$4.3 billion was moved out of and about \$6.7 billion was moved into 30 subactivities DOD considers directly related to readiness for a total of about \$11 billion. The 30 subactivities include 11 of the high-priority readiness-related subactivities. Further, of the 11 subactivities, DOD moved \$3.2 billion out of 6 subactivities Congress considers high-priority readiness-related (e.g., Army divisions, Navy ship depot maintenance, Air Force primary combat forces), while moving \$2.3 billion into 5 others (e.g., Army base operations for land forces, Navy mission and other flight operations, Marine Corps operational forces).

In recent years DOD has improved the information it gives to Congress on the movement of O&M funds. But this budget information is still incomplete and does not provide adequate details of where funds are moved and why. Changes in the way DOD presents budget justification materials, as well as congressionally

⁴10 U.S.C. 483.

mandated changes in the level of details to be provided by DOD, have improved DOD's budget information available to Congress. In particular, the high-priority readiness-related transfer reports offer the most information available on why DOD moves funds among selected subactivities. However, the statutory requirement for these reports will expire when DOD submits its fiscal year 2000 report. In addition, from fiscal years 1994 through 1998, little information was available to Congress about what DOD terms "fact-of-life" movements, which DOD says are made to reflect changes that occur between the time DOD formulates its budget request and the time Congress passes the appropriation act. DOD reported over \$1 billion in fact-of-life adjustments to its fiscal year 1999 O&M appropriations. DOD's financial management regulation does not define these adjustments and provides no guidance on when it is appropriate to make such adjustments, who should approve them, or how much funding can be moved. Without any such guidance governing these movements, DOD and Congress cannot evaluate whether the movements of funds are appropriate.

To enhance congressional oversight, we recommended in our February 2000 report that DOD take actions to further improve the visibility and accountability of funds moved within the O&M appropriations. DOD agreed with our recommendation to provide more guidance on the fact-of-life adjustments. DOD did not agree with our recommendation to continue to provide Congress reports on transfers of funds in high-priority readiness-related subactivities because DOD believes the information is available in several other reports. However, because we do not believe these reports collectively provide the same information, we changed our recommendation to a matter for congressional consideration.

BACKGROUND

DOD has considerable flexibility in using O&M funds and can move them in several ways and at different times during the fiscal year. As shown in figure 1, DOD can "adjust" funding after an initial appropriation is made through

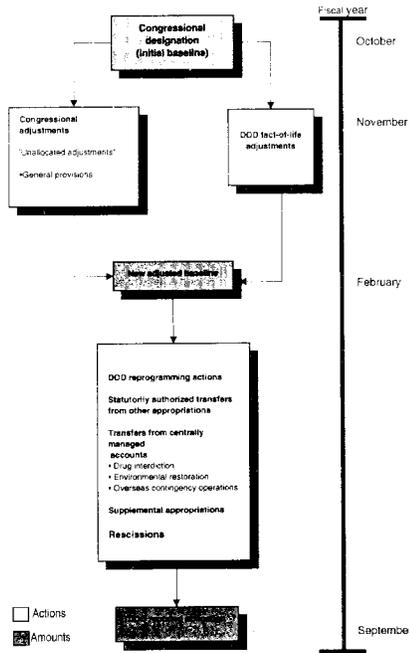
- adjustments directed by Congress in conference reports on appropriation acts and
- fact-of-life adjustments DOD believes are necessary due to changes—such as unplanned force structure changes—that have occurred since the budget was formulated.

After it makes these fund movements, DOD establishes a new "adjusted" baseline budget. It can then move funds among subactivities through

- reprogramming actions, to move funds from one budget activity to another within the same account;
- statutorily authorized transfers, to move funds from other Defense appropriations (such as Procurement);

- transfers from congressionally established, centrally managed accounts (such as for overseas contingencies);
- supplemental appropriations that Congress provides for additional expenses during the year; and
- rescissions, with which Congress cancels appropriated funds.

Figure 1: How O&M Funds Are Moved Throughout the Fiscal Year



*In the conference report on the appropriations act, conferees direct DOD to make changes to its budget baseline. These changes are known as unallocated adjustments and general provisions.

Source: Our depiction, based on Defense Financial Management Regulation DOD 7000.14-R, conference reports on the appropriations acts, and interviews with officials from the Office of the Under Secretary of Defense (Comptroller).

DOD financial management regulations, which reflect agreements between DOD and the authorization and appropriation committees, provide general guidelines for reprogramming. For example, congressional notification is required for O&M reprogramming actions of \$15 million or more.

**DOD OBLIGATIONS DIFFERED SUBSTANTIALLY
FROM INITIAL CONGRESSIONAL DESIGNATIONS**

We compared the initial congressional designations for O&M subactivities as identified in conference reports on Defense appropriation acts with DOD's reported obligations for the same subactivities and found that from fiscal year 1994 through 1998, DOD moved almost \$43 billion out of or into 245 O&M budget subactivities after the conferees made initial funding designations. This amount represents about 12 percent of all the services' and Defense-wide agencies' O&M appropriations over the 5-year period and includes all fact-of-life adjustments, reprogramming actions, statutorily authorized transfers, and supplemental appropriations (see table 1).

Table 1: Differences Between Initial Congressional Designations and DOD's Reported Obligations, by O&M Budget Activity, Fiscal Years 1994-98^a

Constant 1999 dollars in millions

O&M account	Operating forces	Mobilization	Training and recruiting	Administration and servicewide	Total difference
Army	\$9,873.8 ^b	\$284.0	\$1,248.4	\$4,515.5	\$15,921.7
Navy	6,641.7	338.9	540.2	3,392.7	10,913.5
Marine Corps	603.6	^c	251.5	152.8	1,007.9
Air Force	5,023.4	2,248.7	874.1	4,026.9	12,173.1
Defense-wide	383.4	67.4	19.6	2,341.8	2,812.2
Total	\$22,525.9	\$2,939.0	\$2,933.8	\$14,429.7	\$42,828.4

^aInitial congressional designations for each O&M subactivity as reported in annual conference reports on Defense appropriations acts for fiscal years 1994-98.

^bAmount does not include Army data for fiscal year 1996, when the Army restructured its Operating Forces budget activity.

^cThe Marine Corps does not have a separate budget activity for Mobilization.

Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

These changes included both decreases (about \$16 billion) and increases (about \$27 billion) to initial congressional designations. In addition,

- over half of the \$43 billion was moved out of or into (\$9 billion out of and \$13.5 billion into) 81 O&M subactivities DOD considers directly related to readiness, and
- about \$10 billion was moved out of or into (\$5.5 billion out of and \$4.4 billion into) 28 O&M subactivities that Congress considers high-priority readiness-related.

Our recent report contains more detailed information on the differences between initial congressional designations and DOD obligations, by individual O&M subactivity and Defense-wide agency, from fiscal year 1994 through 1998.

DOD CONSISTENTLY MOVED O&M FUNDS INTO AND OUT OF CERTAIN SUBACTIVITIES

We identified those O&M subactivities that were obligated differently than those initially congressionally designated in each of the 5 years in our study period (1994-98) and found that DOD consistently obligated either more or less funds for the same 63 O&M subactivities. Specifically, DOD moved a total of about \$19 billion—\$6.2 billion out of and \$12.6 billion into—these 63 subactivities. Further,

- DOD moved about \$4.3 billion out of and about \$6.7 billion into 30 subactivities DOD considers directly related to readiness, and
- DOD moved about \$3.2 billion out of six subactivities Congress considers high-priority readiness-related (e.g., Army divisions, Navy ship depot maintenance, Air Force primary combat forces), while moving \$2.3 billion into five others (e.g., Army base operations for land forces, Navy mission and other flight operations, Marine Corps operational forces).

Again, our recent report presents more detailed data on each of these subactivities.

CONGRESS HAS VISIBILITY OVER SOME MOVEMENTS OF O&M FUNDS

The information DOD provides to Congress on the movement of funds among O&M subactivities has improved, but additional improvements are needed to enhance congressional oversight of these movements and to ensure DOD can account for its use of O&M funds. Currently available budget information is incomplete and does not provide adequate details of where or why funds are moved. Our report discusses the following two examples of how DOD could improve the visibility and accountability of O&M fund movements.

- Congress has directed DOD to provide semiannual reports on transfers from certain high-priority readiness-related subactivities within the services' Operating Forces budget activity. Included in the reports are data on the funds moved into or out of these subactivities, as well as explanations of the movements. However, the statutory requirement for these reports will expire soon, and when it does, DOD does not plan to continue providing these reports. DOD believes that the information is redundant and is available in several other reports DOD provides to Congress. We believe, however, that the high-priority readiness-related transfer reports offer the most information available on why DOD moves funds among selected subactivities. In view of the consistency with which DOD has reported obligations that are different from initial congressional designations for some readiness-related O&M subactivities, we noted in our February 2000 report that Congress may wish to consider extending the legislative requirement that DOD continue to provide the high-priority readiness-related transfer reports.
- DOD does not have any formal guidance stating when it is appropriate to make fact-of-life budget adjustments, which totaled over \$1 billion in fiscal year 1999 alone. We reported that little information was available to Congress about these adjustments from fiscal year 1994 through 1998. DOD's financial management regulation does not define these adjustments and provides no guidance on when it is appropriate to make them, who should approve them, or how much funding can be moved. Without such guidance, DOD and Congress cannot determine whether adjustments are appropriate. We have recommended that in order to improve the accountability of these fund movements, DOD develop such guidance in consultation with the House and Senate Committees on Appropriations. DOD has agreed with our recommendation.

This concludes our formal statement. If you or other members of this subcommittee have any questions, we will be pleased to answer them.

Contacts and Staff Acknowledgments

For future contacts regarding this statement, please contact Norman J. Rabkin on (202) 512-5140. Individuals making key contributions to this statement included Brenda Farrell and Laura Talbott.

(702045)

¹⁰U.S.C. 483

Appendix 1

O&M Subactivities and Agencies for Which DOD Consistently Obligated Less or More Funds Than Congress Initially Designated, Fiscal Years 1994-98

Every year from fiscal year 1994 through 1998, DOD obligated a different amount than Congress designated for the same 63 subactivities. Table 2 shows the O&M subactivities and Defense-wide agencies that consistently obligated less funding than Congress initially designated. Table 3 shows the O&M subactivities and Defense-wide agencies that consistently obligated more funding than Congress initially designated.

Table 2: O&M Subactivities and Defense-Wide Agencies for Which DOD Consistently Obligated Less Funds Than Congress Initially Designated, Fiscal Years 1994-98

Constant 1999 dollars in millions

O&M subactivity	5-year total		Difference	Percentage difference
	Congress' initial designation ^a	DOD's Obligation		
Army				
Divisions ^a	42,515.7	\$1,935.8	\$579.9	23.1
Claims	517.8	688.5	229.3	25.0
Corps combat forces ^a	720.9	500.3	220.6	30.6
Service-wide communications	3,806.6	3,629.4	179.2	4.7
Land forces depot maintenance ^a	1,649.2	1,486.2	163.0	9.9
Echelon above corps forces ^a	906.3	827.2	79.1	8.7
Civilian education and training	443.3	420.5	22.8	5.1
One station unit training	84.2	66.6	17.6	20.9
Subtotal	\$11,046.0	\$9,554.5	\$1,491.5	
Navy				
Ship depot maintenance ^a	11,511.9	10,389.6	1,218.3	10.5
Weapons maintenance ^a	2,335.0	2,088.8	246.2	10.5
Air systems support	1,487.8	1,310.8	157.0	10.7
Flight training	1,630.5	1,506.4	121.1	7.4
Fleet ballistic missile ^b	4,180.4	4,102.4	78.0	1.9
Cruise missile ^b	588.0	528.0	99.0	6.9
Air operations and safety support ^c	454.4	419.5	34.8	7.6
Space and electronic warfare systems	385.0	353.5	32.4	8.4
Coast Guard support	194.3	92.9	114.4	10.9
Electronic warfare ^d	41.3	34.1	7.2	17.3
Junior reserve officer training corps	119.2	113.5	5.7	4.8
Fleet hospital program	95.0	92.4	2.6	2.7

Depot operations support	6.3	5.7	0.6	10.0
Subtotal	\$23,000.0	\$21,045.7	\$1,954.3	
Marine Corps				
Base support for accession training	284.0	233.4	50.6	17.8
Maritime prepositioning ¹	420.9	406.8	14.1	3.3
Base support for recruiting and other training and education	43.6	30.0	13.6	31.1
Subtotal	\$748.5	\$670.2	\$78.3	
Air Force				
Primary combat forces	13,448.3	12,450.9	998.4	7.3
Logistics operations	1,574.9	3,578.1	506.8	13.0
Space control systems ²	1,874.2	1,551.8	322.4	17.2
Base support for other training	2,303.6	2,066.9	236.7	10.3
Global CBI and early warning ³	4,053.5	3,514.3	139.2	3.4
Launch vehicles ⁴	596.5	527.7	68.8	11.5
Satellite systems ⁵	231.5	166.9	65.6	28.3
Arms control	158.9	131.5	27.4	22.2
Other personnel support	178.3	158.5	18.8	10.5
Subtotal	\$27,429.7	\$24,955.6	\$2,474.1	
Defense-wide				
On-Site Inspection Agency ⁶	464.5	352.7	111.8	24.1
Joint Chiefs of Staff	2,807.3	2,761.3	46.0	1.6
Defense Contract Audit Agency	1,754.7	1,533.5	21.2	1.2
Subtotal	\$5,026.5	\$4,847.5	\$179.0	
Total	\$67,250.7	\$61,073.5	\$6,177.2	9.2

¹Initial congressional designations for each O&M subactivity as reported in DOD's budget estimates to Congress.

²O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness.

³O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness for which Congress also identified as high-priority readiness-related for reporting fiscal year 1998 transfers.

⁴Includes only fiscal year 1997 and 1998 because the Army restructured its Operating Forces budget activity in fiscal year 1997 and did not maintain a link between the old and the new budget structure. Four subactivities in the Army's Operating Forces budget activity in this table were affected by this change.

⁵On-Site Inspection Agency's resources were transferred to the newly established Defense Threat Reduction and Treaty Compliance Agency as of October 1, 1998.

Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

Appendix I

Table 3: O&M Subactivities and Defense-Wide Agencies for Which DOD Consistently Obligated More Funds Than Congress Initially Designated, Fiscal Years 1994-98

Constant 1999 dollars in millions

O&M subactivity	5-year total		Difference	Percentage difference
	Congress' initial designation ^a	DOD's obligation		
Army				
Miscellaneous activities ^{aa}	\$216.0	\$3,140.5	\$2,924.5	1353.7
Base operations support for land forces readiness ^{aa}	5,198.8	5,620.4	421.6	8.1
Logistic support activities	1,667.0	1,984.4	317.4	19.0
Land forces operations support ^{ad}	1,325.8	1,528.8	203.0	15.3
Unified commands ^{aa}	119.6	225.5	105.9	88.6
Other personnel support	890.3	995.6	105.3	11.8
Management and operational headquarters ^{aa}	291.7	384.2	92.5	31.7
Subtotal	\$9,709.2	\$13,879.4	\$4,170.2	
Navy				
Planning, engineering, and design	1,398.7	3,056.2	1,657.5	118.5
Mission and other flight operations ^e	10,187.7	11,063.1	875.4	8.6
Mission and other ship operations ^e	10,302.7	10,958.9	656.2	6.4
Combat support forces ^e	1,748.8	2,146.9	398.1	22.8
Space systems and surveillance ^e	809.0	1,038.4	230.4	28.5
Acquisition and program management	2,239.0	2,370.7	131.7	5.9
Warfare tactics ^e	728.6	806.4	77.8	10.7
International headquarters and agencies	38.8	45.7	6.9	17.6
Subtotal	\$27,463.3	\$31,487.3	\$4,024.0	
Marine Corps				
Operational forces ^e	1,810.8	1,944.5	133.7	7.4
Recruiting and advertising	347.5	374.8	27.3	7.9
Recruit training	38.3	43.6	5.3	14.1
Subtotal	\$2,196.6	\$2,362.9	\$166.3	
Air Force				
Other service-wide activities	2,790.1	4,936.4	2,175.3	78.8
Base support for logistics operations	3,553.6	3,894.1	340.5	9.6
Management and operational headquarters ^e	572.1	911.8	339.7	59.4
Other combat operations support ^e	1,159.5	1,417.4	257.8	22.2
Administration	543.7	757.0	213.3	39.3
Training support	324.0	400.1	76.1	23.5
Subtotal	\$8,913.1	\$12,315.8	\$3,402.7	

Defense-wide				
Classified and communications agencies ¹	20,643.4	21,146.9	503.5	2.4
U.S. Special Operations Command	5,514.8	5,795.1	280.3	5.1
Defense Security Service	1,012.5	1,035.8	23.3	2.3
Subtotal	\$27,170.7	\$27,977.8	\$907.1	
Total	\$76,442.9	\$88,023.2	\$12,580.3	16.7

¹Initial congressional designations for each O&M subactivity as reported in DOD's budget estimates to Congress.

²O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness.

³O&M subactivities located in the Operating Forces budget activity that DOD considers to be most directly related to readiness for which Congress also identified as high-priority readiness-related for reporting fiscal year 1998 transfers.

⁴Includes only fiscal year 1997 and 1998 because the Army restructured its Operating Forces budget activity in fiscal year 1997 and did not maintain a link between the old and the new budget structure. Five subactivities in the Army's Operating Forces budget activity in this table were affected by this change.

⁵Includes the classified and communications agencies, the Defense Information Systems Agency, and the Defense Mapping Agency.

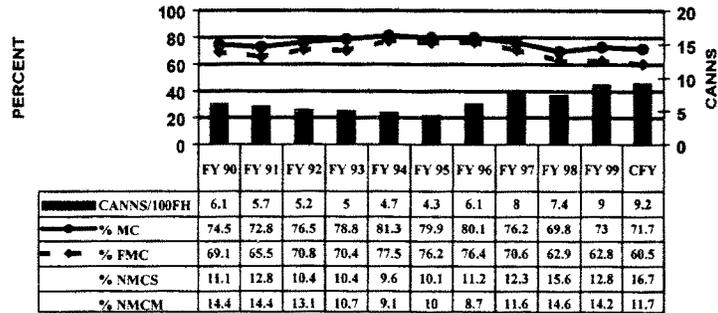
Amounts may not total due to rounding.

Source: Our analysis, based on Defense O&M budget data.

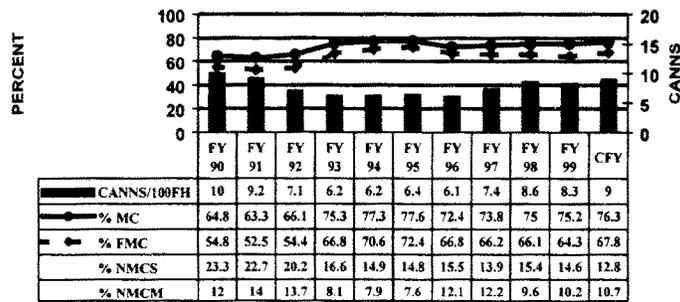
DOCUMENTS SUBMITTED FOR THE RECORD

FEBRUARY 29, 2000

Active Fixed Wing



Active Rotary Wing



**QUESTIONS AND ANSWERS SUBMITTED FOR THE
RECORD**

FEBRUARY 29, 2000

QUESTIONS SUBMITTED BY MR. BATEMAN

UNDER EXECUTION OF FUNDS

Mr. BATEMAN. Why does the Army consistently request 100 percent funding for its operating tempo accounts and then consistently underexecute these available funds?

General KEANE. We request full funding for our operating tempo (OPTEMPO) accounts (the readiness Sub-Activity Groups (SAGs) 111, 112, 113, 114, and 115) because they form the basis of our training requirements to provide trained and ready forces to meet the National Military Strategy based upon the Army's Combined Arms Training Strategy (CATS).

However, our ability to successfully execute this training is reliant upon the training support and infrastructure available to the commander. As an example, a unit cannot successfully conduct range training without the targets to support that event. Targets are not part of OPTEMPO accounts, but are obviously needed to execute this training. Commanders need to balance resources to fully support training. In addition to training concerns, commanders must provide for a minimum acceptable quality of life for soldiers and families. These quality of life requirements also compete for scarce resources in accounts that have not been traditionally funded. When quality of life and other essential base operations are not funded adequately, commanders are faced with the tough decision whether to train to 100% or migrate a small portion of those funds to other accounts. Finally, when units are deployed for scheduled events, like peace keeping operations, or unscheduled activities, like disaster relief, they may lose the opportunity to train on their combat vehicles, further decreasing the ability to fully execute their OPTEMPO miles.

FUTURE TANK MILE REQUIREMENTS

Mr. BATEMAN. Why is actual historical use not factored into the Army's Training Resource Model when determining future tank mile requirements?

General KEANE. Historical use is factored into the Army's Training Resource Model in the form of cost factors, and these are used to determine future tank mile resource requirements. The Cost and Economic Analysis Center (CEAC) computes a cost per mile based upon a three-year moving average. Future tank mile requirements are not directly related to historical miles driven. Requirements are based on the Combined Arms Training Strategy (CATS), which provides for a mix of live, virtual, and simulation in training.

OPERATING TEMPO

Mr. BATEMAN. Where did the Army spend the \$400 million intended for operating tempo in fiscal year 1999?

General KEANE. During any fiscal year, there are several things that can happen to cause execution of a program to differ from the appropriated amount. First, there are transfers (\$102 million) that result from undistributed congressional adjustments that are spread across all programs. Second, there are transfers (\$126 million) that result from Headquarters, Department of Army either fixing "Army-wide" bills which result from changes in policy or economic environment, or funding new requirements that have emerged since the budget request was submitted. The Army leadership is actively involved throughout this process and makes the tough choices on the most pressing requirements. After all the Congressional and HQDA transfers are applied to the base funding, it is then sent to our Major Commands (MACOMs) for execution. In the past two years, we have decreased the amount of the HQDA transfers by over 60%, which in turn provides the MACOM commanders more flexibility with the funding they are provided.

The commanders in the field must balance priorities during the course of the fiscal year, often resulting in the further transfer of OPTEMPO funds. We have always fully funded the OPTEMPO account at the expense of other readiness accounts, such as Base Operations Support (BOS) and Real Property Maintenance (RPM). Due to funding constraints, many of the requirements in these areas remain unfunded,

eventually impacting directly on our soldiers' quality of life. OPTEMPO, BOS, and RPM are normally the commander's largest accounts and provide the maximum amount of flexibility. The majority of the transfers that we make are from one readiness-related account to another, or to support training ranges, airfield operations, and related activities; all critical elements in keeping our forces trained and ready. In FY99, OPTEMPO funds were transferred to the following accounts: RPM (\$66 million), BOS (\$23 million), and Force Readiness (\$52 million).

Finally, we also provide an offset to our contingency based on the forces we have deployed. The OPTEMPO funding that was programmed for these units is transferred to our Miscellaneous Activities account to offset the costs of these operations. In FY99, \$23 million was transferred for this purpose.

TANK MILE TRAINING READINESS

Mr. BATEMAN. Because Army commanders are not achieving the 800-tank mile-training goal, how is actual training within a range of 630 to 654 tank miles, from fiscal year 1996 through 1998, affecting readiness levels?

General KEANE. The Army requires the resources that have been provided to sustain our ability to train as well as conduct that training. There are numerous factors such as time, personnel, equipment, ammunition, and available training facilities that affect a commander's training level evaluation. Reduced training funds do not necessarily have an immediate impact on training readiness. The impact is often subtle and cumulative over time, not manifesting itself in reported readiness until sometime in the future. Missed training opportunities today cannot be easily made up and will ultimately result in poorer trained units and leaders who missed critical experience.

Under current reporting procedures, the unit commander determines the training level for his unit by estimating the number of additional training days required for the unit to become fully trained on its mission essential task list (METL). The METL is a list of those critical wartime tasks the unit must be able to perform to accomplish its wartime mission. METL proficiency is a function of training frequency, duration, and intensity. Reducing tank miles affects both the frequency and duration of unit training events. Additionally, per Congressional guidance, the Army continues to develop a reporting system that is more objective in nature.

O&M AND RPM BUDGET REQUESTS

Mr. BATEMAN. Why is the Army not submitting realistic budget requests that would fully fund the costs for operating and maintaining bases and related real property?

General KEANE. The Army submits balanced, realistic budget requests given the top-line constraints, which preclude full funding of all readiness accounts. The Fiscal Year 2001 budget funds Real Property Maintenance and Base Operations Support at a critical level to continue operations with tolerable risk. Critical levels for fiscal year 2001 are 96 percent of total requirements for Base Operations Support and 69 percent for Real Property Maintenance.

READINESS/OPTEMPO BALANCE

Mr. BATEMAN. How do Army commanders balance the increased readiness risk by decreasing the desired operating tempo requirements?

General KEANE. The commander is the one best suited to make the decisions regarding increasing readiness risk by migrating Operations and Maintenance (O&M) funds used for unit training to other purposes. This flexibility is provided to the commander to maximize the benefit from available funding to meet the full spectrum of the unit's training needs as well as the installation's quality of life needs. The operating tempo (OPTEMPO) requirements are based on the Combined Arms Training Strategy (CATS), which provides a menu of tasks that are associated with events that when executed will result in a combat ready battalion. Each commander makes an assessment of the status of the unit and determines what events to conduct and the area and degree of risk to assume. He/she may shorten or eliminate training events or lessen their intensity with the view in mind that he/she can make up the shortfall in the time between notification to deploy and actual deployment. There are many variables associated with these decisions, and we rely on the local commander's judgment.

Mr. BATEMAN. Specifically, how is readiness affected by continually achieving less in operating tempo goals?

General KEANE. Today's Army is capable of fulfilling its current missions as outlined under the National Military Strategy, within acceptable ranges of risk. Declin-

ing resources, however, has meant that commanders have, at various times, been compelled to make choices between quality of life resourcing and training resourcing. Commanders train their units to the extent of resources actually available. In some cases, this has meant that their readiness is less than desired, increasing risk, as reflected in their readiness reports. Increased risk in readiness does not mean that the U.S. Army would not prevail in any scenario. Instead, it means the potential loss in national treasure could be higher.

Mr. BATEMAN. What units are affected the most? Please be specific.

General KEANE. Units that are forced to function outside their normal METL proficiencies tend to have their readiness affected, since their activities are not directly related to their warfighting missions. Their additional missions are not necessarily a component of their readiness rating. In general, combat support elements seem to be affected to a greater extent than combat or combat service support elements, whose missions more closely approximate their METL tasks.

TRANSFER OF CONTINGENCY FUNDS

Mr. BATEMAN. For fiscal year 1997, the Army transferred over \$1.4 billion from the centrally-managed Contingency Account into O&M subactivities where it was used such as in combat units, tactical support, and force-related training and special activities. However, for fiscal year 1998, the Army transfer \$1.6 billion from the centrally-managed Contingency Account into one subactivity for miscellaneous or additional activities. What are the pros and cons that the Army has learned by transferring contingency funds into one special account opposed to several individual subactivities like divisions and corps combat forces?

General KEANE. Accounting for the majority of Army contingency operations costs in a single, separate subactivity account allows us to more accurately identify all contingency costs. This includes incremental costs for direct support of the operation and training offset costs for training not conducted due to deployment. This also allows us to clearly identify budget execution by element of resource and operational phase. The result is also an ability to more accurately estimate the funding required for subsequent years of an ongoing contingency, or estimate the cost of an unplanned contingency of a similar type. We found that transferring funds into several subactivity accounts made it more difficult to separate contingency costs from normal baseline training costs.

ARNG ENHANCED BRIGADE DEPLOYMENT

Mr. BATEMAN. We've put a lot of resources into the National Guard enhanced brigades. How many times have they deployed, and why are they not used more often?

General KEANE. During fiscal years 1999 and 2000, six infantry companies from the 39th (Arkansas) and 41st (Oregon) enhanced separate brigades were deployed in support of Operation DESERT FOCUS, providing security for patriot missile batteries in Southwest Asia. Elements of the 30th (North Carolina), 45th (Oklahoma), 48th (Georgia), 155th (Mississippi), 116th (Idaho), 76th (Indiana) and 218th (South Carolina) brigades are currently scheduled to deploy in support of Stabilization Force (SFOR) rotations 8 thru 12 for operations in Bosnia. Presently all 15 enhanced separate brigades are fully integrated into existing warplans. The Army National Guard (ARNG) enhanced separate brigades have been utilized when the situation required and current planning has incorporated these capabilities to best support a variety of scenarios. As the Army begins its Transformation to a lighter, more responsive, and more lethal force, ARNG enhanced separate brigades will be called upon to mitigate risk as Active Component (AC) units transition to objective organizations.

Mr. BATEMAN. Do you believe that the purchase of the M-Gator, a low-cost off-the-shelf piece of equipment, is necessary to the needs of the Army? If so, why is it not on the budget?

General KEANE. The M-Gator would provide the Army, in particular our light units, with an increased capability to perform their mission. The Army views the "Drop Zone Mobility Enhancement System" as a unit level procurement and did not fund the system as an Army centrally managed line item in the procurement budget. However, commanders in the field may purchase the M-Gator out of their day to day, operating funds (OMA).

Mr. BATEMAN. Do you believe that the purchase of the M-Gator will be included in future budget requests?

General KEANE. At this time, there is no plan to include the "Drop Zone Mobility Enhancement System" in future budget requests.

Mr. BATEMAN. As a light Infantryman, can you comment on the utility and need for the system in our Light Divisions?

General KEANE. The Army's Light Divisions require a high degree of mobility and must be rapidly deployable. An M-Gator type vehicle, which is easily deployed, would provide Light Divisions with an increased lift capability that would assist in the movement of supplies and light equipment, and the evacuation of casualties.

UNEXECUTED ACCOUNTS

Mr. BATEMAN. GAO's recent report on O&M fund movements-Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements (GAO/NSIAD-00-18, Feb. 9, 2000) found that the Navy has consistently underexecuted its funding for ship depot maintenance by about \$1.2 billion or 10.5 percent from fiscal year 1994 through 1998. This subcommittee is encouraged to learn that the Navy obligated most of its funding in fiscal year 1998 for ship depot maintenance, however, when viewed over a five year period, the amounts not used for ship depot maintenance need explaining.

Why did the Navy not use all of its available funding for ship depot maintenance in light of its ship overhauls and other ship depot maintenance requirements?

Admiral PILLING. In any year of execution, requirements arise which must be funded from within available resources. When this occurs, the Navy must balance this new requirement against currently funded operations and commitments, including ship depot maintenance, and decide which programs will be sacrificed to accommodate the higher priority new program. Also, ship depot maintenance takes its fair share of Congressional undistributed reductions which, until fiscal year 1999, were not reflected in the appropriated amounts and thus appear to be programmatic decreases by the Navy. Over the five year period referenced (FY 1994-98), these reductions amounted to almost \$200 million. Last, there are sometimes programmatic decisions made during the year of execution which lead to funding changes. For example, the latest QDR directed ship force structure reductions that led to the cancellation of fiscal year 1998 availabilities for ships that were to be decommissioned as a result.

Mr. BATEMAN. Where did the Navy ultimately spend these funds if not obligated to meet these ship depot maintenance requirements?

Admiral PILLING. As noted above, there are many different programs that may have higher priority emergent requirements in a given year. In particular, contingency operations are often not fully financed by the Overseas Contingency Operations Transfer Fund (OCOTF), necessitating transfers, usually from maintenance accounts which afford greater flexibility, to operating accounts.

FLIGHT TRAINING

Mr. BATEMAN. Concerns have been expressed that funding has been insufficient in the recent past to train pilots to be combat proficient in all areas of their aircraft's capabilities, e.g. air-to-air, air to ground, etc. The FY01 budget funds tactical air flying hours to maintain primary mission readiness (PMR) at 85% of requirements, that same as last two years.

Given the sophistication of the systems Navy pilots have to operate, shouldn't funding and flying hours be increasing?

Admiral PILLING. Whenever there is an increase in the sophistication of any weapon system there is a need for training to that capability. The issue is determining, funding, and fielding the appropriate training system for each increasingly sophisticated task. In the case of naval aviation the answer is in a proper mix of flight hours for dedicated training and simulator hours in a device whose capabilities and fidelity match those of the aircraft. The current budgeted flight hours will provide the dedicated airborne training necessary as long as all the other required elements are available. These are aircraft capable of flight, enough people to fly and maintain these aircraft, an adequate supply of spare parts on the supply shelves, as well as the availability of practice weapons and weapon ranges to fire them. These training hours must not be sacrificed to sustain an increased forward presence operational tempo, nor can the funds be used resource other priorities or the result will surely be decreased training opportunities and declining readiness. The remaining element of this naval aviation training readiness equation, simulators, must also be addressed. Given the expense of precision weapons and their increased range, there are few opportunities to experience live training. Simulators with the same high degree of sophistication as our aircraft can provide a significant portion of the fundamental training requirements leading up to the final exam of actual aircraft weapon firing. The numbers and sophistication of these simulators must be in balance with the previously noted elements that comprise the aviation readiness equation. The answer to your question is in achieving this balance.

Mr. BATEMAN. Are you confident that you can maintain aircrew proficiency, safety, and all other training requirements with this level of funding?

Admiral PILLING. As discussed above, as long as we keep all the elements of the aviation readiness equation in balance, the budgeted hours will accomplish what you describe.

NAVY MARINE CORPS INTRANET NMCI

Mr. BATEMAN. In June of this year, the Navy intends to award a contract to one prime vendor who will have the responsibility for purchasing, operating and maintaining all of the Department of the Navy (DON) computers and video capabilities. The contract is for five years with three options years. At an estimated \$2B per year, this contract could have a total value of \$16B. There are currently no funds identified in either this year's budget or the budget request for fiscal year 2001 to pay for this contract.

Why is the initiative, referred to as NMCI, not included in the fiscal year 2001 Budget request?

Admiral PILLING. All of the Department of the Navy claimants have traditionally budgeted for their Information Technology (IT) network and support services in operating accounts and specifically identified modernization programs which are subsequently reported in their IT budget extracts. These requirements are based on their unique needs. NMCI is envisioned as a new approach in contracting for IT services within the Department of the Navy. It's a firm fixed price, performance-based services contract. To meet our future strategic computing and communications capability, IT is a required "utility" for our future, bought from the commercial sector just as we buy other types of utilities (e.g., water, telephone, and electricity). The NMCI contract has 37 Service Level Agreements (SLA) developed using industry best practices. Industry will be paid, or penalized, depending on their ability to satisfy the SLAs at each of our customer's site. By managing NMCI as an end-to-end capability under a single commercial service provider, we will be able to provide greater access, interoperability and security to the communication and data exchange to all of our Sailors and Marines. The claimants will continue to budget for their local needs under the NMCI contract. To give the Congress better insight into where these funds will be coming from to pay the NMCI bill, we have prepared a 300b-like exhibit and will prepare a 53-like exhibit for fiscal year 2002 and out.

Mr. BATEMAN. Does the Navy consider this a major acquisition? Why or why not?

Admiral PILLING. The Department of the Navy does not consider NMCI to be a major acquisition. NMCI is a service contract that will provide IT services much like a utility. The DON and DOD have agreed that a tailored Oversight Framework is appropriate and signed a memorandum of agreement (MOA) to this effect on March 8, 2000. The MOA was signed by the Deputy DOD CIO, Deputy DON CIO, and Deputy Assistant Secretary of the Navy (C4I). Additionally, in accordance with OMB Circular A-11, Part III, DOD works with OMB to determine oversight requirements, which has not yet been accomplished with respect to NMCI.

Mr. BATEMAN. Does the Navy believe that the NMCI contract must comply with the Clinger-Cohen Act? If not, why not?

Admiral PILLING. NMCI fully embraces and implements the principles of the Clinger-Cohen Act (CCA). Under NMCI, we are reengineering the way we do IT infrastructure planning and execution. Using industry best practices, we are improving the agency's performance, improving both our warfighting and warfighting support missions, and making use of commercial services in our NMCI effort by adopting a seat management type approach to IT outfitting used by industry. This is consistent with our DON IT Strategic Planning efforts and with our support of the DOD Strategic Plan. Also, as part of our NMCI effort, we will be fully compliant with the Joint Technical Architecture (JTA), our naval Standards and Architecture plans, and the emerging DOD Global Information Grid (GIG) efforts. We are taking a common industry solution based approach built around the Gartner Total Cost of Ownership model across the Department that will quantify the net benefits of our approach. We've adopted industry based Service Level Agreements to measure performance of the NMCI and of the vendor selected to implement it. We've established a tiered oversight process of this initiative that includes JCS, USJFCOM, USCINCPAC, DISA, OSD, and all elements of the Department of Navy.

Mr. BATEMAN. Has the Navy discussed the budgeting implications of this initiative with OMB? If not, why not?

Admiral PILLING. Our preliminary discussions with OMB have, to date, been limited to our approach to Small Business participation. We are in the process of scheduling NMCI briefings to the OMB senior staff to discuss all of the other elements of this initiative.

Mr. BATEMAN. Does the Navy consider the NMCI contract as the purchase of a capital asset? Why or why not?

Admiral PILLING. The Department of the Navy does not consider this to be the purchase of a capital asset in accordance with the definition of capital asset in OMB Circular A-11, Part III. Specifically, the NMCI concept is that the service provider will own and operate the equipment and infrastructure to provide IT services, much like a utility. The contract is a "services" contract, not a lease contract.

Mr. BATEMAN. Does the Navy consider the NMCI contract to be a capital lease? If not, why not?

Admiral PILLING. No. The Department of the Navy does not consider the NMCI contract to be a capital lease under the DOD Financial Management Regulations, Volume 4, Chapter 7, or OMB Circular A-11. Generally, capital leases are treated as a means to acquire an asset. The intent of NMCI is to acquire a service, not a capital asset. NMCI is a multi-year commercial services contract, under which the service provider will own and operate the equipment and infrastructure similar to a utility. The DON has no legal interest or title in the property.

Mr. BATEMAN. Is the Navy fully complying with OMB Circular A-11 for its NMCI contract? If not, why not?

Admiral PILLING. IT budget reporting requirements are documented in Part 1, Section 53, "Information Technology", and Part , "Planning, Budgeting and Acquisition of Capital Assets". Section 53 provides guidance for the preparation of Exhibit 53, i.e., IT budget exhibit. The DON currently reports all IT resources by functional area and major and non-major IT acquisition program in Exhibit 53 in accordance with the OSD budget guidance. Contractual vehicles used by IT acquisition programs to acquire resources are not separately identified, except as noted below under the discussion of Exhibit 300b. All IT resources acquired from the NMCI contract will be reported in the future in Exhibit 53 under the applicable IT acquisition program, as is currently the case with the resources acquired from the separate, individual contracts which NMCI will replace.

Part III of OMB Circular A-11 contains guidance for the preparation of Exhibit 300b. An Exhibit 300b is required for major acquisitions (paragraph 300.3) only, which for the fiscal year 2001 budget request OSD and OMB have mutually agreed are the major IT acquisition programs so designated in OSD (C3I) memo of May 5, 1999 and reported in Exhibit 53 as discussed above. Currently, there are no "contracts" designated as "major" for which an Exhibit 300b is required.

However, because of the size of the NMCI effort and its importance to the Department, we developed and submitted a 300b-like document to Professional Staff Members from both the HAC and HASC. This action was completed by the Department of the Navy CIO March 6, 2000.

Mr. BATEMAN. How many government employees will lose their jobs as a result of the NMCI contract being awarded?

Admiral PILLING. The Department is currently involved in a comprehensive evaluation of both the number of civilian jobs that will be affected by NMCI implementation, and the impact that this change in jobs will have on our existing civilian workforce.

While the Department of the Navy (DON) does not currently possess the end-to-end capability that will be provided under NMCI, at the local level, DON activities do operate IT networks and provide communication services. In many cases, these local services are currently provided by the commercial sector. In other cases, these local functions are performed by military and/or government civilian personnel. Consequently, while not the intent of NMCI, when DON transitions to an NMCI contract, network administration and operations, and communications positions currently performed by in-house personnel will be displaced.

Information workers are in high demand in both the private and public sectors. Recruiting and retaining such workers is a continuing and deepening challenge. Implementation of NMCI will displace some DON employees who possess highly valued information skills from their current positions, and we will make a concerted effort to retain these workers on the Navy Marine Corps team. Civilian employees currently performing these functions will either have to transition into other important IT competencies within the Department, such as knowledge management, legacy systems support, application development, etc., or, if they want to continue to work in the network operations field, will have to transition to the private sector.

A clause that addresses a right of first refusal has been included in the NMCI Request for Proposals (RFP), to allow affected personnel to be considered for employment with the winning contractor. In addition, a provision addressing retraining opportunities has been identified as an option item in the NMCI RFP. Our on-going evaluation will also fully consider additional options to provide assistance and support to our valuable employees during this transition process. Our expectation is

that, through our concerted efforts, coupled with both the versatility of our IT professionals and the shortage of IT expertise nation-wide, we will be able to minimize the impact on our civilian workforce.

We will keep you informed of our progress, and provide you with the results of our on-going analysis.

Mr. BATEMAN. Why is the Navy not conducting a cost comparison under OMB Circular A-76 for the functions affected by NMCI?

Admiral PILLING. The issue of A-76 applicability was studied in detail and the Department of the Navy Office of the General Counsel made a determination that the NMCI encompasses what will become a recurring Department of the Navy need for services that can be obtained from a commercial source. Accordingly, the policies and guidance contained in OMB Circular A-76 and its revised supplemental handbook are applicable. However, it is the Navy's position that the NMCI may be acquired without the need to conduct an OMB Circular A-76 cost comparison because it falls within the exception applicable to "new requirements." The secure, end-to-end global functional services we will be procuring under the NMCI contract is not a function currently performed by Department of the Navy employees or military personnel.

Mr. BATEMAN. Please identify, specifically, how the Navy will pay for the NMCI contract this year and in fiscal year 2001.

Admiral PILLING. Every year, the DON CIO submits an Information Technology (IT) Budget extract to Congress that highlights the Department's expenditures in IT, across the board. These same funds will be used by the claimants to procure services from the NMCI contract.

In fiscal year 2000, approximately \$20 million of the Operations and Maintenance (O&M) monies slated to satisfy our basic IT operations and service requirements have been identified and put into ready reserves to support the beginning of the claimant's transition to NMCI during the last quarter of fiscal year 2000.

Three steps have been taken in our spiral maturity process for determining our outyear funding for NMCI. The initial reference point is the Department's \$3.46 billion fiscal year 2001 IT Budget submission. The office of the DON CIO analyzed the claimant's fiscal year 2001 IT Budget submissions for all programs and support efforts that appeared to fund any services that would be obviated by NMCI. For the purpose of this initial evaluation, the DON CIO office erred on the side of conservatism, excluding many appropriations and all civilian salaries. This analysis indicates approximately \$1.62B of the total fiscal year 2001 IT Budget could be applicable as the NMCI source of funding. After completing this analysis, we reviewed the current per seat cost estimates from the NMCI Business Case Analysis (BCA) that showed an estimated \$1.52B spent by the claimants in these areas. This data was then compared with known fiscal year 2001 NMCI implementation plans that reflect our cost projections. Please Note: The projected FY01 costs of NMCI are the cost for number of seats transitioning to NMCI in fiscal year 2001. This cost is SOURCE SELECTION SENSITIVE but was previously provided under protective marking. Please see our detailed NMCI FY01 Funding Source Review submission dated March 17, 2000.

To ensure the fidelity of the initial answers to the NMCI funding source review, the Department's Reinvestment in Infrastructure (RII) Group, a business management review board with senior level representation from across the claimants, is conducting a detailed, claimant-by-claimant analysis and bottom up review of their expenditures and IT budget submissions. Not only are they evaluating the funding components that made up the \$1.62B estimate generated by the DON CIO, they will evaluate all CIO excluded funding appropriations and all other cost-of-doing business elements ensuring that all aspects of funding that might be obviated by NMCI are captured.

To complete the funding source review, the results of the RII Group's analysis will be compared to the final NMCI contract proposal costs, after the vendors have completed their due diligence. During due diligence, the vendors will be visiting Navy and Marine Corps bases and stations to determine what portions of the Department's existing infrastructure can be used in their performance solution. Once determined, the Department will be credited for those investments, further reducing the NMCI seat costs. This final review will determine if any additional adjustments might be required in the fiscal year 2001 budget so that they may be addressed with Congress prior to the start of execution.

Mr. BATEMAN. Why does the Navy not consider this initiative an Acquisition Program or Major Automated Information Systems Program as defined under DOD Regulation 5000.2R?

Admiral PILLING. The Department does not consider NMCI to be either an Acquisition Program or a Major Automated Information System as defined by DOD

5000.2-R. NMCI is a contract vehicle for ordering a prescribed level of performance-based commercial IT services at a fixed price per seat. These Information Technology services will be contracted for similar to a "utility" and will be funded annually by the operations and maintenance appropriation. As such, NMCI does not meet the criteria for designation as an acquisition program.

However, the Department of Defense (DOD) and the Department of the Navy have agreed that a tailored Oversight Framework is appropriate. We are jointly implementing the oversight framework agreed to in our March 8, 2000 memorandum of agreement. The PEO (IT) in his concurrent assignment as the Enterprise Acquisition Manager for Information Technology (EAMIT) has been assigned responsibility for NMCI.

Mr. BATEMAN. Does the Department of Defense, including the Office of the General Counsel, fully agree with the Navy's plans for NMCI and specifically to the above questions?

Admiral PILLING. The former Deputy Secretary of Defense (DEPSECDEF), current acting DEPSECDEF, Department of Defense Chief Information Officer (ASD C3I) and immediate staff, Office of the Secretary of Defense (Program Assessment and Evaluation), Joint Chiefs of Staff J6, Joint Forces Command J6, Pacific Command J6, and numerous OSD personnel have been briefed on our NMCI efforts. We requested and obtained both ASD C3I and DEPSECDEF's approval to release our RFP to industry. The Joint and operational staff mentioned above are part of our contract and technical oversight teams.

In a recent letter to the General Accounting Office, the DOD CIO, Mr. Arthur Money, was quoted as saying, "My office fully supports the goals of the NMCI acquisition. It will establish an enterprise-wide capability within the Navy providing its service members and employees end-to-end, secure and assured access to a full range of voice, video and data services. The NMCI will expand operating capability of naval forces by eliminating interoperability problems and other impediments to productivity and speed of command, while at the same time reducing the security risks and overall costs. As it becomes fully interoperable and secure, it is positioned to serve as a major component of the Global Information Grid (GIG)."

As for specific review or agreement of the OSD staff to the answers to your questions, the OSD C3I staff helped jointly prepare all of the oversight guidance on NMCI and its designation as a Special Interest Initiative. They have not reviewed or commented on the Department of Navy's positions with regard to applicability and interpretation of various provisions of A-76 or A-11. Likewise, while aware of the strategic elements of our approach toward financing and personnel management, OSD has not specifically endorsed them.

The DON Office of General Counsel previously discussed with the DOD Office of General Counsel DON's position on applicability of A-76 and other related statutes. Additionally, discussions are being initiated on the Department's other responses as discussed above. We will keep you advised of their progress.

FLYING HOUR FUNDING AFFECT ON READINESS

Mr. BATEMAN. Explain movement of funds intended for the Air Force's flying hour program from fiscal years 1995 through 1998 and what affect, if any, this has had on readiness. Is movement of funds from the Air Force's flying hour program continuing for fiscal years 1999 and 2000?

General LYLES. Between FY95 and FY97, the movement of funds from the Air Force flying hour program was negligible, averaging less than .4% of the budgeted funding. In FY98, execution of flying training programs was impacted by declining mission capable rates and high opstempo due to contingency operations. Contingency deployments precluded full execution of home-station training sorties and, as a result, the Air Force did not fly the hours as originally programmed. Consequently, unobligated flying hour funds were used to relieve chronic high priority readiness shortfalls, as reported in GAO's 8 July 1999 report: Defense Budget: Observations on the Air Force Flying-Hour Program. In FY99, we experienced a similar outcome due to increased commitments in Operations Desert Fox and Allied Force. However, for FY00 we are currently on course to execute our flying hour funding as programmed. Many years of high operations tempo, coupled with aging equipment, the lack of spare parts and engines have impacted our near-term readiness. The Air Force has experienced a decline in mission capable rates of approximately 9.9% since FY94. Additionally, low retention of maintenance personnel has caused a corresponding increase in non-mission capable for maintenance (NMCM) rates. The Air Force is addressing these issues through increased funding for spare parts and numerous retention and recruiting initiatives.

FUNDING FOR PRIMARY COMBAT FORCES

Mr. BATEMAN. Will the Air Force highlight the funding for primary combat forces and explain to what extent movement of funds has taken place in this subactivity, particularly in fiscal years 1994 to 1996?

General LYLES. According to the GAO's report, *Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements* (GAO/NSIAD-00-18, Feb. 9, 2000), the Air Force moved the following funds from the Primary Combat Forces subactivity in fiscal years 1994 through 1996.

<i>Constant 1999 dollars in millions</i>		
<i>Fiscal Year</i>	<i>Difference between Congressionally designated and obligated Amounts</i>	<i>Percent Change</i>
1994	71.7	2.5
1995	148.3	4.8
1996	217.2	7.9

The GAO report addresses Congressionally designated funds which it defines as the budget request plus or minus any allocated changes made by the Congress.

In an effort to provide field commanders maximum flexibility to respond to changing mission requirements, the Air Force does not generally limit the movement of funds between subactivity groups unless specifically required to by law. However, limitations are placed on the high priority readiness activities, and the Air Force does report funding adjustments in these activities in the annual "End of Year" report. The movement of funds reflects the ever-changing situations faced by our field commanders and, given the substantial lead-time (~2 years) between initial programming and actual execution, these variances are not surprising.

FUNDING SOURCE FOR REAL PROPERTY

Mr. BATEMAN. The Air Force reported that it moved \$155 million into its operating forces real property maintenance subactivity but did not indicate where the funds came from in the fiscal year 1998 high-priority readiness-related transfer report. The Air Force did state, however, the funds were needed for repairs to runways, maintenance hangers, utility systems, roofs and other real property assets.

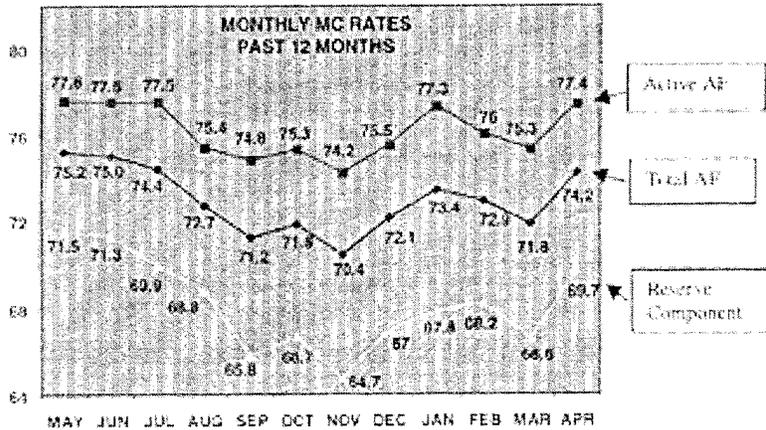
What was the funding source for the \$155 million used for real property maintenance in fiscal year 1998? Depending on the subactivity that was the source for this funding, how was effected-subactivity impacted?

General LYLES. Funding was sourced by field commanders from various accounts which would suffer the least impact. Specific reporting systems do not track the specific movement of funds.

MISSION CAPABILITY RATES

Mr. BATEMAN. What are your current mission capable rates and what has been the impact of the last few years decline in these rates?

General LYLES. The current mission capable (MC) rate for total Air Force (Active, Reserve & Guard) is 74.2% for April 2000. This is a 2.8% increase from the previous month. Active Air Force MC rate is 77.4% and the Reserve Component MC rate is 69.7% (both as of April 2000).



MC rates for fighter aircraft as a group have increased over the past 12 months, rising from 74.9% in May 1999 to 77% in April 2000. (A-10, F-15, F-15E, F-16, and F-117)

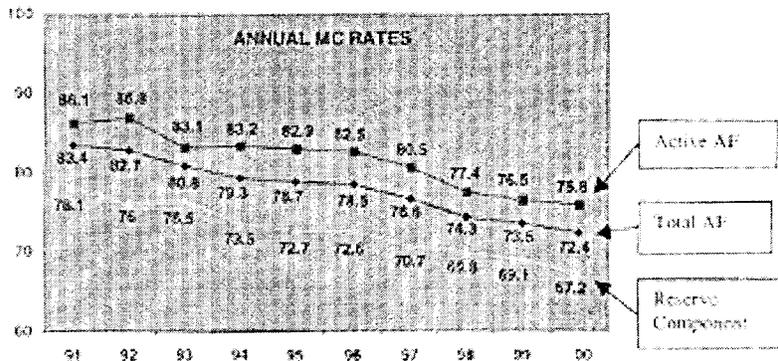
Bombers MC rates (B-1 and B-52 combined) have varied over the past 12 months, from a low of 61.4% in Sep. 1999 to a high of 70.6% in the month of Oct. 1999; the April 2000 rate is 64.8%. The monthly rates have been slightly higher but fairly consistent with the previous fiscal year.

Strategic airlifters overall MC rates have decreased over the past 12 months, from 73.7% in May 1999 to 68.4% in April 2000. (C-5, C-17, and C-141)

Other aircraft, particularly the KC-135, have diminished the overall AF MC rate. The KC-135 has suffered significant problems with the stab-trim actuator which grounded much of the fleet during the past six months, but this situation improved in April 2000.

The annualized MC rate for Total AF is 72.4%. This is a 1.1% decrease from the FY99 rate of 73.5%. The annual MC rate for the Active AF is higher at 75.8%; the Reserve Component falls below Total AF with an MC rate of 67.2%.

IMPACT: Decreased MC rates have driven down sortie generation capabilities, which in turn, have negatively impacted the ability of combat forces to maintain their required level of training. It should be noted that improvements in monthly MC metrics through April provide leading indication on annual rates. If that trend continues, the annual rates should begin showing the improvement later this year. Note: FY00 annual numbers are Oct. 1999 through April 2000. Aggregate AF figures are based on the following aircraft: A-10, F-15, F-15E, F-16, F-4 (through FY98), F-111 (through FY97), B-1, B-52, C-5, C-17, C-141, E-3, C-130, and KC-135.



DECLINE IN AIRCRAFT MISSION CAPABLE RATES

Mr. BATEMAN. Is the steady and substantial decline in aircraft mission capable rates reason for concern? Specifically, are current mission capable rates for any of your key aircraft, such as the C-5, lower than the rates that you need to have to meet the demands of your most demanding contingency missions?

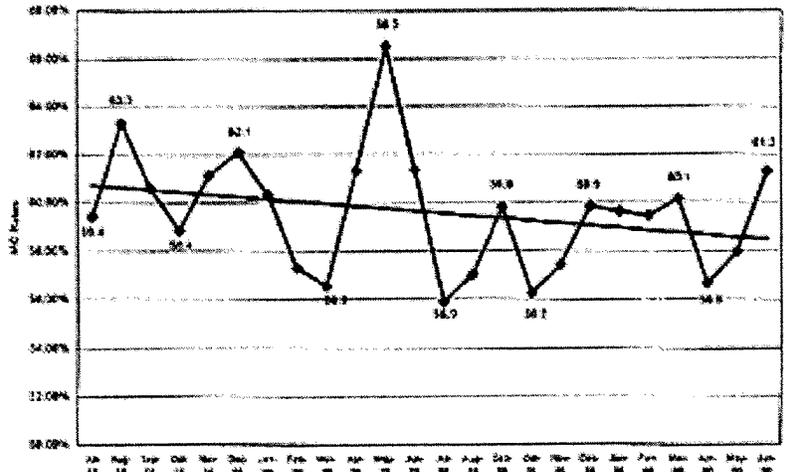
General LYLES. The Air Force needs to maintain a strong global readiness and warfighting capability to support our national military strategy. The nature of rapidly responsive aerospace power requires high levels of readiness. Therefore, our steady and substantial decline in aircraft mission capable rates is reason for concern.

While the overall strategic fleet has shown a decline in mission capable rate, the C-5 is of greatest concern. The importance of our C-5 fleet was highlighted during Kosovo operations. Although the C-5s flew only 34% of our overall intertheater missions, they were critical in moving over 50% of the outsize equipment along the deployment phase from CONUS to Europe. According to the Chairman of the Joint Chiefs of Staff (CJCS), Allied Force was "the most precise and lowest-collateral-damage air campaign in history-with no U.S. or allied combat casualties in 78 days of around-the-clock operations and over 38,000 combat sorties." A portion of that success belongs to the C-5's responsive movement of precision munitions from CONUS into the AOR.

The C-5's readiness remains a significant concern. The C-5, which is important to every peacetime deployment we undertake today, is even more critical in an MTW scenario where we are required to move significantly more unit equipment from CONUS. Based on the Mobility Requirements Study-Bottom-Up Review Update (MRS-BURU), the C-5 Galaxy fleet is expected to achieve a 75% MC rate in order to meet warfighting CINC requirements. Today, the C-5 maintains an MC rate of approximately 61%. Substandard MC rates put wartime scenarios at risk. Moreover, a substandard MC rate means fewer tails in peacetime to support ongoing daily ops, humanitarian relief efforts, Presidential support missions, and contingency operations.

The Air Force is putting together a C-5 modernization program that will work to raise C-5's reliability but even if we succeed, based on the time required to complete RDT&E and subsequent modifications, we will not see MC rates rise significantly until 2005, and assuming full funding for these programs, we will not reach the 75% MC rate until approximately 2014. Air Mobility Command is examining its current and forecasted combat power projection shortfalls, using the Mobility Requirements Study 2005 (MRS-05) scenarios, in its "Oversize and Outsize Analysis of Alternatives." We are hopeful that the recommendations from that analysis will suggest an operationally effective, best-value force mix of C-5 and C-17 aircraft solution to meet today's and tomorrow's Oversize/Outsize requirements.

C-5 MC Rate (Total Force)



UNACCEPTABLE AIRCRAFT MISSION CAPABILITY RATES

Mr. BATEMAN. Which aircraft have potential problems in maintaining acceptable mission capable rates, and what are the required and actual mission capable rates of each?

General LYLES. Several airframes as outlined below are experiencing difficulties in achieving and maintaining acceptable mission capable rates. This is due to a combination of supply and maintenance issues, such as lack of skilled maintenance technicians, retention problems, prior years underfunding, effects of aging aircraft, OPTEMPO, and technical surprises.

AIRCRAFT	LEAD MAJCOM GOAL	ACTUAL MC RATE
B-1	67%	54.8%
C-5	75%	58.6%
E-3	85%	73.4%
KC-135	85%	66.8%

ACTIONS TO IMPROVE MISSION CAPABLE RATES

Mr. BATEMAN. What action is being taken to improve the mission capable rates of these aircraft?

General LYLES. The Air Force has implemented several actions to improve mission capable rates. In particular, we have focused on improving spare parts support to the warfighter through improved funding, expedited parts deliveries, partnership with Defense Logistics Agency (DLA) to improve support and funding for low demand—high cost aviation assets, and stabilization in the depot transition. Also, we are improving the supply processes and incorporating those into the logistics transformation plans.

In FY99, DOD added \$904M in cost authority to support increased sales and to purchase or repair spare parts. The objective was to restock the shelves with critical spares and reconstitute the fleet from Kosovo operations. In addition, with the help of Congress in the FY00 PB, Air Force was able to fully fund the increased consumption of primary operating stock . . . spares to support the peacetime flying hour program. In the case of engine components, typically the most expensive and hardest to support spares, the Air Force Materiel Command has implemented innovative contracting methodologies. The General Electric Engine Corporate Contract (for example) reduces the acquisition lead-time for its fighter engine components from 400+ days to 90–150 days. Also, Logistics Transformation efforts are underway to improve internal processes by increasing accountability/responsibility for Supply Chain Managers, reducing customer wait time, enhancing total asset visibility, and improving metrics to track execution.

Anecdotal evidence indicates spares support to the field is generally improving. Backorders for reparable spare parts have been reduced 54% from December 1998 to April 2000. The latest monthly (April 2000) Total Not Mission Capable for Supply rate for fighter aircraft is 11.8%, the best seen in 23 months. The Air Force remains cautiously optimistic that overall MC rates will continue to improve.

FUNDING CONTRIBUTING TO LOW MISSION CAPABILITY RATES

Mr. BATEMAN. Was insufficient funding a contributing cause of these lower-than-required mission capable rates and, if so, what requirements were not funded and what caused the funding shortfall?

General LYLES. Yes, insufficient funding was a contributing factor to the decline in mission capable rates. Spare parts shortages arose from funding problems in the 1990s, and are a major contributor to the Air Force's readiness decline over the past several years. Downsizing of the Air Force spare parts inventory went too far. Supply systems were pushed to the limits as Air Force units deployed more often. As a result the non-mission capable rate attributed directly to supply shortfalls increased from 8.6% in FY91 to 14% in FY99.

In FY99–01, Congress, DOD, and Air Force took specific actions to address shortfalls in spare parts funding. This combination of support fully funded the validated peacetime spare parts requirement. However, after working through Kosovo lessons learned and completing a thorough review of the levels required in the Readiness Spares Package (RSP) kits, there is an FY01 shortfall of \$75M, which is included on the Air Force UPL.

AIRCREWS NOT GETTING THE RIGHT FLYING HOURS

Mr. BATEMAN. The subcommittee understands that many of the aircrew members deployed for contingency operations are getting a lot of flying hours, but not necessarily the right flying hours.

Is this still the case, or if not, what has been done to correct this situation?

General LYLES. Home station flying is made up of almost 100 percent training. On the other hand, flying in support of contingencies is defined by the contingency air tasking order. Its requirements are by nature often narrow in scope, repetitive, and offer little opportunity to train to the full spectrum of normal requirements. The result is that sometimes aircrews can find themselves needing to accomplish certain training events even though they have flown as many or more hours than they would have during the same time at home station. Most aircraft training events must be accomplished every 45 to 90 days. Many of these are generic and can be completed while flying in support of the contingency. Sometimes, however, all training cannot be accomplished. To relieve this situation, the Air Force has implemented several initiatives. First and foremost, the implementation of the Air Expeditionary Force concept provides stability and predictability necessary to accomplish training and most operational requirements. This concept provides for aircrew training throughout its 15-month cycle ensuring that they are trained to meet operational needs during its 90-day rotation. A spin up period immediately prior to deployment provides the opportunity to "front-load" training. A reconstitution period following redeployment provides the opportunity to restore all unit mission areas. Second, at Operation NORTHERN and SOUTHERN WATCH up to 5 days a month are dedicated to training. Last, in light of the Air Expeditionary Force, Air Combat Command is re-examining aircrew training requirements with the intent of aligning training with the AEF schedule. This initiative is still being developed but promises to provide insight into better ways of keeping aircrew training on track during contingencies.

Mr. BATEMAN. How concerned are you with this shortfall in depot maintenance funding and will this impact on your ability to meet your mission requirements and/or future contingency operations?

General DAKE. The depot maintenance backlog is currently at a manageable level and poses no serious threat to near term readiness. However, a continued rise in backlog will ultimately degrade readiness as Operating Force Commanders are forced to apply scarce O&M funding towards maintenance of equipment that cannot be inducted to the Depot for repair. Funding the depot maintenance shortfall is a proactive measure which will reduce depot maintenance backlog to a more acceptable level while allowing Operating Force Commanders the ability to use their resources according to their financial plan.

READINESS FUNDING

Mr. BATEMAN. From your point of view, what readiness critical requirements are unfunded or underfunded in the fiscal year 2001 budget requests? What are the near-term and long-term readiness impacts of this underfunding?

General KEANE. We are nearly \$1 billion dollars underfunded in readiness requirements for fiscal year 2001. Our most pressing underfunded requirements include duty military occupational specialty qualification and leader development for the Reserve Component, some Title XI program costs, test and evaluation, training devices and range modernization, installation information infrastructure modernization, sustainment systems technical support, and real property maintenance. These programs have been funded only to essential levels to reduce risk to a tolerable degree.

In the near-term, we will continue to lag behind in duty military occupational specialty qualification, thus creating a wider gap to cross in funding to attain our required level of service-wide skills qualification. Testing constraints will delay new equipment fielding. Our infrastructure will continue to erode and lack essential connectivity to support training and deployments, and our maintenance of critical combat systems will be less efficient. Each of these individual effects will degrade our current operational readiness. In the long-term, attaining necessary levels of warfighting capability by the timeframes envisioned by our National Military Strategy will be placed at greater risk as individual modernization programs (hardware and equipment) are delayed due to lack of funding.

Admiral PILLING. The Navy's highest priorities as reflected in the Chief of Naval Operations' Unfunded Requirements List of 9 February 2000 are in the areas of personnel and readiness. These personnel and readiness priorities are as follows:

1. Personnel End Strength and Recruiting Incentives
77.0M
2. Readiness Aircraft Procurement, Navy APN-6 Spares
174.0M
3. Readiness Fast Combat Support Ship AOE Depot Maintenance
40.0M
4. Readiness Ship Depot Maintenance
142.3M
5. Readiness Real Property Maintenance
136.6M
6. Personnel Career Sea Pay
118.7M
7. Readiness Amphibious Assault Ship LHA Midlife
32.0M
8. Readiness Training Ordnance
26.0M
9. Readiness Laser Guided Bombs and Bomb Kits
20.0M

Any funding that can be appropriated to address these unfunded areas would be of great benefit to Navy preparedness.

We are meeting our near-term obligations but not funding these priorities will place the Navy's long-term readiness at risk and continue to make it increasingly difficult to prepare our deploying battle groups for deployment. Battle groups that are not deployed or preparing for deployment are in C-3 or C-4 status and current underfunding in these critical readiness areas makes it increasingly difficult to move them through the Inter-Deployment Training Cycle to a C-2 and ultimately C-1 readiness status.

General LYLES. The increased costs of maintaining our aging aircraft fleet has forced the Air Force to allocate an additional \$300 million into Depot Level Repairables (DLRs) in FY01. These funds would otherwise have been used for base support and real property maintenance requirements. Both of these programs directly support quality of life and our worldwide mission and were already fiscally constrained. In addition to shortfalls due to aging weapons systems, base support requirements (\$145 million) and Real Property Maintenance (\$278 million for mission critical projects) are further stressing our O&M budget. Furthermore, during development of the FY01 Budget, the Air Force has identified 24 programs totaling over \$2.8 billion in critical unfunded requirements in the categories of Readiness, People, Infrastructure, and Modernization. Each contributes to near-term or long-term readiness of the Air Force. In addition to DLR costs, our top readiness shortfalls are engine repair production (\$75 million), readiness spares packages (RSPs) (\$62 million), and training munitions (\$79 million). Infrastructure requirements include \$1.1 billion for MilCon and \$650 million for Military Family Housing. Finally, modernization requirements total over \$400 million for KC-135 re-engining, C-32 communications upgrades and the EELV.

General DAKE. As our Commandant, General Jones, has testified, his focus is on the support of the Operating Forces and, specifically, the primacy of the Marine Air-Ground Task Force (MAGTF). The readiness of the MAGTF rests on four pillars: (1) our Marines and their families, (2) our legacy systems, (3) our infrastructure, and (4) our modernization effort. These pillars must remain strong in their own right and in the correct proportion so that the structure of readiness remains solid now and in the future. Thus, our challenge is to maintain the individual strength of each pillar, while achieving a proper balance in our application of resources amongst the pillars. Because of the need to balance readiness, we were unable to fully fund all of our requirements.

As General Jones discussed in his 9 February letters to the Chairman and Ranking Minority Member of the Committee, the Marine Corps' most critical Fiscal Year 2001 shortfall total approximately \$1.5 billion. These shortfalls are spread across our four readiness pillars. They include recruiting and retention initiatives, family housing, barracks and other quality of life projects in support of our Marines and their families. Critical support for our legacy systems through depot maintenance, corrosion control, and Operating Forces is also included. Bridging modernization through updating our existing ground and aviation platforms continues to be stressed. Concerning our aging infrastructure, accelerating both family housing and military construction projects, and devoting more resources to maintenance of real property is highlighted. Finally, increasing the pace of modernization for both our ground and aviation equipment is identified for additional funding.

We have and will continue to maintain our near-term readiness—mainly through the efforts of our young Marines. But hard work is becoming overwork as our major

ground and aviation weapon systems are facing block obsolescence. The key to the health of Marine Corps readiness is the modernization of our equipment and infrastructure. During the 1990's, in order to maintain near-term readiness, we had to forgo much of our planned modernization. Because of this, many of our ground and aviation weapon systems now face block obsolescence. Adequate infrastructure and modernization has become a near-term readiness issue. These modernization and infrastructure shortfalls are reflected in our unfunded priority list. Over \$1.0 billion of the \$1.5 billion total unfunded priorities is Research and Development or Procurement funds to upgrade/extend the life of or replace our legacy systems. An additional \$0.3 billion is infrastructure support—Family Housing, Military Construction and Real Property Maintenance.

CONTINGENCY OPERATIONS READINESS IMPACT

Mr. BATEMAN. The deployment of personnel in support of contingency operations (CONOPS) has increased over the last few years. This increased pace of operations has fallen most heavily on small number of critical units with unique specialties, including special forces, electronic warfare, and military police. What other types of forces have been heavily effected by CONOPS?

General KEANE. An analysis of Army units indicates that our air defense artillery, armor, and military intelligence units have also been affected by CONOPS. The effect of CONOPS on particular types of Army units is a function of the number of forces available to respond to requirements. Units with relatively small numbers in the force structure are subject to greater involvement in support of CONOPS. Whereas unit types with larger force structure may have the ability to more evenly distribute deployments over a larger structure. For example, our Patriot units have recently experienced an increase in deployment to provide support for CONOPS. The Army has taken steps to reduce impacts to these units including sourcing of the Kosovo and Bosnia missions under a single corps to improve deployment predictability and enhanced readiness.

PACE OF OPERATIONS

Admiral PILLING. While EA-6B's supporting the electronic warfare mission cited above, are the platform within the Navy that has been impacted the most by contingencies in recent years, SAND DECK and EP-3 aircraft are also small communities that have been heavily tasked during contingency operations.

General LYLES. In general, all our units are suffering from the effects of the high TEMPO and subsequent downturn in readiness as a result of our participation in worldwide contingencies over the years. Those units and career fields that were heavily engaged in Kosovo operations this past year were particularly hard hit.

There are, however, certain career fields and units that have been tasked more heavily than others. This is true not only for active duty units but also some reserve component assets. These include our "Low Density/High Demand" (LD/HD) systems such as our command and control assets; our intelligence, surveillance, and reconnaissance assets; and our special operations and rescue assets. Other systems such as airlifters, tankers, and some specialized fighters have also seen heavy taskings.

The personnel associated with these systems historically have been experiencing TEMPO in excess of the Air Force target maximum of 120 days deployed in a 365 day period. These skills include linguists, intelligence specialists, airborne warning and control personnel, combat controllers, and para-rescue personnel as well as load masters, specialized maintenance career fields, and flight engineers. Security forces personnel, special tactics teams, civil engineers, and communications specialists have also had a history of high deployment rates. Currently, in-flight refueling technicians, services personnel, fire protection specialists, vehicle operators/maintainers, fuels, and munitions personnel round out the top skill levels reported as having high TEMPO.

General DAKE. Marine Corps readiness has not been significantly impacted by long-term or prolonged contingency operations. In the past, our normal forward-deployed forces have met most contingency requirements, and in terms of unit deployments, the scope of our deployments have not gone much beyond our normal deployment level. The Marine Corps averages 23,000 Marines forward deployed at any given time, and with the exception of a few specialized personnel or high-demand low-density assets, it has been these Marines that have been used routinely to respond to contingencies through out the world. The predictability built into our unit deployments has been essential to reducing the stress associated with higher operational tempo. Achieving predictability while complying with National Military Strategy and the Department of State's Forward Presence Agreements is accom-

plished through the execution of our time tested rotational deployment cycles and our participation in the SECDEF directed Naval Force Presence Policy.

READINESS OF AFFECTED FORCES

Mr. BATEMAN. How has the readiness of these forces been impacted over the last few years?

General KEANE. The overall impact of extended deployments on the readiness of these units has decreased. This is due in part to our ability to maintain training proficiency while deployed. As deployment locations mature, units are provided training opportunities to sustain warfighting skills.

Reducing contingency operations (CONOPS) deployment time reduces degradation of warfighting skills. For combat units, readiness reports indicate a degradation of warfighting skills as they train for and focus on peacekeeping missions, conduct the mission, and redeploy. While in a deployed status, units are frequently not afforded adequate range and training facilities to conduct collective training on warfighting skills. For example, armor and infantry units do not have available facilities or time to sustain and conduct crew gunnery qualifications and unit level maneuvers when deployed in support of CONOPS. Only upon redeployment can these units execute training plans on collective warfighting tasks. This trend is not as severe for combat support and combat service support units because portions of their wartime tasks may be conducted under the conditions of the CONOPS mission. Because extended CONOPS require a rotation of units, up to three units may be involved in the various stages of preparation, execution of the mission, and retraining of warfighting skills. As such, the CONOPS impacts on readiness have an affect on up to three units.

Admiral PILLING. The mission readiness of these units was basically unaffected by the surge in operating tempo caused by contingency operations. There were some parts issues caused by the increase over planned flying hours. If surge operations had continued there would have likely been impacts to training readiness.

General LYLES. Unpredictability and duration of TEMPO demands have led to declining retention across the force, but most severely in mid-career pilots and sergeants with special skills. These increased peacetime deployments negatively impact wartime training and participation in exercises. Quality of life issues emerge as stay-at-home and deploying forces struggle to cope under strain of increased TEMPO. We are hopeful the Expeditionary Aerospace Force (EAF) concept will structure the Air Force to respond to increased peacetime demands of our National Military Strategy and enhance our ability to maintain wartime readiness for both the near- and long-term.

General DAKE. The readiness of our forward-deployed forces has not been significantly impacted by long-term or prolonged contingency operations. Most contingency requirements have been responded to by our normal forward-deployed forces or by rescheduling normal deployments to a newly required location. The Marine Corps averages 23,000 Marines forward deployed at any given time and these Marines are used routinely to respond to contingencies throughout the world. Prolonged contingencies, such as Somalia, and peacekeeping endeavors have provided unique training opportunities to Marine Corps forces but come at the expense of increased operating costs and wear and tear on our legacy equipment.

DEPLOYMENT IMPACT ON PERSONNEL READINESS

Mr. BATEMAN. The deployment of personnel in support of contingency operations has increased over the last few years. This increased pace of operations has fallen most heavily on a small number of critical units with unique specialties, including special forces, electronic warfare, and military police.

Would you please identify key indicators that would provide the best measures of deployments' impact on personnel readiness?

General KEANE. There are several indicators the Army uses to evaluate deployment impact on personnel readiness. These indicators include the number of training days a unit requires after a deployment to achieve combat readiness, the skill tempo by military occupational specialty (MOS), and the deployment tempo of high-demand/low-density units. Additionally, a semi-annual survey of military personnel provides anecdotal information on the impact of deployments on soldiers. The results of analyses conducted on the affects of deployment on retention provide only general conclusions. However, studies show some level of deployment is acceptable. It increases morale, unit cohesion, MOS competency, and job satisfaction, all of which improve personnel readiness. However, when the length and frequency of deployments increase, it negatively affects the Army's ability to retain soldiers and man the force and, therefore, negatively affects readiness.

Admiral PILLING. SORTS, PERSTEMPO, and Retention rates are indicators that would identify the impact that contingencies have upon involved units.

General LYLES. People continue to be our most vital resource—they are the most critical component of readiness. The intense demands we place on them as they perform the Air Force missions around the world require highly motivated, highly skilled, professional airmen. However, we are performing more missions with fewer people. Indeed, today's active duty force is smaller than at any other time in Air Force history.

Recruiting and retention of our force are key indicators in the readiness equation. The negative retention trend exacerbates the high operations TEMPO problem because it places greater burden on those who continue to serve. Quality of life issues emerge as stay-at-home and deploying forces struggle to cope under strain of increased TEMPO.

The EAF concept helps ensure that the nation has trained aerospace forces, as well as providing our people relief from the high TEMPO in a turbulent world.

General DAKE. The key indicators that best measure contingency deployments' impact on personnel readiness would be the unit commander's assessment rating of his personnel readiness as reported in the Status of Resources and Training System (SORTS) and the unit's personnel retention rate. Marine Corps forward-deployed forces maintain a high personnel readiness rating and traditionally these units have high retention rates.

PACE OF OPERATIONS

Mr. BATEMAN. What are the advantages and disadvantages of changing the force structure to increase the number of critical units with unique capabilities, assuming no increase in total force structure?

General KEANE. The Army uses the Total Army Analysis (TAA) process to optimize the force structure to meet its requirements. Since the end of the Cold War, these requirements have changed and, in some cases, placed increased demands on certain units with unique capabilities. As we resource the force structure in preparation to fight two nearly-simultaneous major theater wars (MTW), we consider the requirements for these unique units in smaller scale contingencies (SSC) and engagement operations. We have used the discipline of the TAA process and its associated force feasibility review to analyze the impacts of activating, converting, and inactivating units and to prioritize those force structure changes to ensure we properly execute our core mission of winning the Nation's wars. Increasing the number of unique units is an advantage to enabling execution of our engagement and SSC missions, but we must assess the risk of our ability to execute the MTWs if the increase to these unique units is made at the expense of our warfighting units. As we progress through the Army's Transformation, we will continue to optimize our force structure to maintain the Army's ability to operate across the full spectrum of requirements.

Admiral PILLING. The challenge is to respond to the dynamic strategic environment facing our Navy within the framework of a constrained budget. The fact that we have a shortage of critical units with unique capabilities today is one indication that the QDR 1997 battle force may not be enough in the future. Fewer ships, aircraft, and personnel are available today to accomplish the same naval missions, coincident with a marked increase in crisis response and contingency requirements—there is no elasticity left in the fleet. However, undue shifting of resources to react to today's problems mortgages the future and is not the answer; we must merge both. Our resource investments must be linked to the strategic organizing principles derived from the Navy's vision of the future. Fundamentally, the solution lies in matching our investments for the future—modernization and recapitalization—to the pace of emerging threats so that readiness is not sacrificed. Resource allocation must be driven by strategic vision if we are to build the right Navy for today, and tomorrow, while staying under the top line.

General LYLES. Assuming no increases in force structure, any changes to force structure would be to the detriment of other programs. It does not make sense to decrease other programs to gain these advantages.

General DAKE. The size and composition of the Marine Corps' force structure is based on the 2 MTW requirement. Without an increase in force structure, increasing the number of units of a given type will result in the reduction in the number of units of another type required to meet the 2 MTW requirement. While affording increased capability in one area, increasing the number of unique units without an increase in force structure simultaneously increases risk in another area.

FUNDING FOR TRAINING CENTERS

Mr. BATEMAN. It is the Subcommittee's understanding that the budget information contained in these reports (budget year, current year, and prior year) is available when the President submits the budget request in early February, yet the committee continually receives O&M justification material by late February/March timeframe. We are encouraged to learn that, for the first time, all the services will be providing these materials on the Internet. Thus, it is expected the information will be available earlier because printing delays will no longer be a consideration. Yet it is the end of February and none of the services have their justification material available on the Internet. Given that O&M the largest appropriation group in the Defense budget, what efforts are underway that would allow for details in justifying this request to be available earlier?

General KEANE. The current budgeting schedule and milestones within the planning, programming, budgeting, and execution system do not allow for earlier submission of budget justification materials. To facilitate access to budget justification material, the Department of Defense requires all unclassified budget justification material be posted on an access-controlled Internet web site by all submitting organizations. This allows wider access to the justification material by interested parties on Capitol Hill.

Admiral PILLING. The Navy has ongoing efforts to streamline and automate the information provided as justification of our O&M budget estimates. This has shortened our response time somewhat in the past year, and promises to produce even more time savings in the future, allowing us to send justification material to OSD and OMB more quickly after their budget decisions are finalized.

General LYLES. The Air Force provides O&M budget justification as required by OSD and OMB. These materials are required within 30 days of submission of the President's Budget and we will make every effort to meet or exceed this requirement.

General DAKE. We are not aware of any efforts to provide O&M justification earlier. As a small portion of the overall Department of Navy budget, we strive to meet the deadlines set by the Secretary of the Navy to support the official submission of justification materials. Once the President's Budget is made available to the Congress, we quickly engage with the Congressional Staff regarding the details of the O&MMC budget.

FUNDING FOR MAJOR EXERCISES

Mr. BATEMAN. To what extent are you fully funded for major exercises, and for the advanced combat unit training levels you desire?

General KEANE. Combat training center rotations are the biggest exercises our units conduct. The National Training Center, the Joint Readiness Training Center, and the Combined Arms Maneuver Training Center are the crown jewels of Army collective training. In fiscal year 2001, the training centers' operations are fully funded to conduct scheduled training rotations. Because of competing requirements, the Army has taken risk with the recapitalization and modernization of the combat training centers (CTCs) that support these exercises. The opposing forces (OPFOR) tracked vehicle fleet of M551 and M60A3 tanks and M113 armored personnel carriers continues to age, requiring extensive maintenance costs as these systems quickly approach the end of the useful lives. The instrumentation systems, built 20 years ago with 1970's technology, are losing feedback capability and will not support digital equipment. To continue to garner the maximum training benefit from the centers, and keep them relevant to current and future operational environments, we must modernize the training centers' prepositioned fleets, OPFOR fleets, and instrumentation systems to provide maximum training benefit for, and feedback to, the rotational units.

Admiral PILLING. Today, Navy's readiness is adequate to meet all operational commitments. On any given day, approximately 35% of our forces are deployed around the world and ready for combat if necessary. The remainder is at home in various stages of readiness as they prepare for their next deployment. The Navy trains for a deployed combat ready presence and completes all required training as part of the Inter-Deployment Training Cycle. The uncertain future of the availability of the Vieques training range continues to pose a significant challenge to our Carrier Battle Groups as they try to find a means to establish combat proficiencies prior to deployment.

General LYLES. The FY01 President's Budget fully funds the Air Force requirement for major exercises and advanced combat unit training, with the following exceptions.

As identified on the FY01 Air Force Unfunded Priority List (UPL), there is a shortfall of \$125M in FY01 for training munitions. These munitions are critical to train aircrews to 100% of combat ready requirements. Without this, degraded readiness levels could be experienced, or WRM munitions might be expended for this training.

Although not on the Air Force FY01 UPL, there is also a shortfall in the JCS Exercises program. The FY01 President's Budget requested \$37.1M. This supports only 60% to 70% of Theater CINC requirements. The Appropriation committee marks reduced the \$37.1M by \$12.2M to \$24.9M. This supports only 40% to 50% of the Theater CINC requirements.

General DAKE. The Marine Corps has four major training and exercise programs. These programs are Combined Arms Exercises (CAXs) at Twentynine Palms, Ca; Mountain Warfare Training Center (MWTC) courses at Bridgeport, Ca; Weapons and Tactics Instructor (WTI) courses at Yuma, Az; and our Marine Expeditionary Unit (Special Operations Capable) (MEU(SOC)) pre-deployment workups on the east and west coasts and in Okinawa, Japan. These four programs are essential for us to provide trained and ready Marine units. As Service priorities, these programs are fully funded.

PREPARATION AND CONDUCT OF MAJOR EXERCISES

Mr. BATEMAN. To what extent have reductions in training ordnance and declines in mission capable rates affected the preparation for and conduct of these exercises?

General KEANE. Exercises tend not to be impacted by either of these items as commanders focus available resources on those units preparing for and executing the exercises. Approximately 65 percent of the annual Army ammunition budget funds training ammunition to meet historic execution levels. We have been very successful meeting our C-1 readiness goals with this level of training ammunition support, but the Army Vision anticipates increased ammunition requirements with increased training costs. Despite shortages of funding, mission capable rates have not substantially impacted exercise training or execution.

Admiral PILLING. Navy's deployed readiness remains satisfactory, but because of our cyclical readiness posture, we expect non-deployed readiness to be at a lower level. The Navy has leveled the steady downward trend in readiness, after reaching a high in the 80s. The enhancements provided in the fiscal year 2000 budget address some of our most pressing needs. With the help of Congress, we have applied considerable resources to ameliorating the problem, but it will take time for the positive effects to be reflected throughout the Fleet and operating forces.

General LYLES. There have been no major impacts to preparation for and conduct of exercises due to training ordnance reductions or declining mission capable rates. The impact of ordnance shortages on preparation for and conduct of exercises is mitigated because of the priority commands tend to place on major exercises vice day-to-day training. Additionally, the Air Force strategy is to use War Reserve Material munitions when possible to partially fill the training shortfalls. Although this strategy facilitates higher rates of training, it is also decreasing our WRM Munitions stockpile and results in a slight increase in the risks associated with a 2-MTW scenario. As identified on the FY01 Air Force Unfunded Priority List (UPL), there is a shortfall of \$125M in FY01 for training munitions.

In cases where applicable weapon systems have experienced a decline in mission capable rates, we are using the same strategy of exercises taking priority over home station training.

General DAKE. Competing priorities for fiscal resources do not allow us to fund training munitions to the required levels stated in our aircraft Training and Readiness manuals. The Marine Corps in conjunction with Naval Aviation is recommending that beginning in FY02 we base line training ordnance funding at 70% of that required by aircraft T&R manuals. Currently, the fleet trains with those munitions made available to them and to date has not experienced a degradation in training readiness significant enough to effect SORTS. Some of the ordnance used to support training comes from warfighting inventories which are currently not being adequately replaced to maintain the inventories at present levels. At this point, the overall affect of reduced training ordnance and decreased mission capable rates is subjective and difficult to measure. Our aviators continue to deploy ready for combat and required training is being accomplished. However, the quality of training suffers when training munitions are funded at less than optimum levels.

TRAINING CENTER REQUIREMENTS

Mr. BATEMAN. The committee is aware that individuals and units arriving at the major training centers are not adequately trained to compete with resident opposing

forces when they initially arrive at the training centers. To what extent have you had to lower the training center requirements for newly arriving individuals such as pilots?

General KEANE. The Army appreciates the committee's support of our combat training centers. The CTCs remain the Army's crown jewels for training our leaders and soldiers in executing their wartime mission essential tasks. The centers achieve this enhanced training readiness through strict adherence to doctrinal training standards. Units arrive at the CTCs at different levels of training readiness due to operational mission requirements or limited home station training. Based on these differences, the CTCs, in coordination with the division commander of the training unit, establish training conditions for the unit in order to ensure the soldiers and units receive the best possible training experience. This condition setting allows soldiers and units to achieve significant improvement in their training readiness. If soldiers or units are at risk because of training weaknesses, then conditions are created to allow the soldier or unit to safely conduct the training.

Admiral PILLING. Navy's deployed readiness remains satisfactory, but because of the cyclical nature of our deployments, we expect non-deployed readiness to be at a lower level. As reflected in recent Navy "Bathtub" graphs, the post-deployment Air Wing Readiness rating drop off is occurring earlier in the readiness cycle and is falling deeper. As a result, Air Wings remain at lower readiness levels longer during the Inter Deployment Training Cycle. This lower level of readiness requires a steeper ramp-up prior to deployment. At the Naval Aviation Strike Warfare Center, Fallon, this equates to pilots arriving for training less prepared than in the past. Additionally, training requirements have increased over the past as the threat, systems, weapons and tactics have become more complex and the opportunities to train with required systems have decreased.

General LYLES. The Air Force continues to produce quality combat pilots who have the skills needed to perform the Air Force's flying missions; evidence their success in Operations Allied Force and Shining Hope. During Allied Force our sustained combat operations equaled that of a major theater war, as the Air Force flew the majority of the NATO's 38,000 combat sorties. We provided over 900 personnel and flew more than 700 airlift sorties in support of Shinning Hope, providing civil engineering, logistics, and security for many thousands of the more than 1.3 million displaced Kosovars.

However, maintaining a mission ready aircrew force has become increasingly more difficult for several reasons. Operations tempo (OPTEMPO) has increased fourfold since 1990. Additionally, a strong economy continues to draw large numbers of pilots from the military to the airlines. The challenges have been significant from the maintenance perspective as well. The effects of increased OPTEMPO, low retention of maintenance technicians, aging aircraft and equipment, and lack of spare parts end engines have combined to cause decreased aircraft mission capable rates.

Implementation of the AEF is but one example of our efforts to improve the quality of life of our Air Force people. Our airmen are well trained, motivated and ready to serve. As a result of outstanding support from the Administration and Congress we've taken a number of steps to improve retention. Pay table reform and enhanced bonuses for pilots and other critical specialties will all go a long way toward closing the wage gap between our airmen and their civilian counterparts. To offset the pilot shortage, the Air Force has doubled its pilot production since the mid-90's. In FY99-01, Congress, DOD, and the Air Force took specific actions to address our shortfalls in spare parts funding. In the Air Force FY00 and 01 President's Budget, we fully funded the spare parts validated requirement.

As laid out in the Air Force's FY01 budget program and beyond, a balanced and integrated approach that focuses on four fundamentals—people, readiness, modernization, and infrastructure—is key to the Air Force maintaining a quality aircrew force whose size and readiness enable it to accomplish the mission today and tomorrow. Continued congressional support will facilitate the essential readiness and other improvements the Air Force needs to continue to produce quality combat pilots, and remain the world's preeminent aerospace force.

General DAKE. The Marine Corps has not had to lower training center requirements for newly arrived units or pilots. Our training program is not designed, nor do we expect, to have combat units or pilots arrive fully trained when they arrive at our training center.

At our principal training center in Twenty-nine Palms, we conduct 10 Combined Arms Exercises (CAX) a year.

The CAX Program is the centerpiece of the Marine Corps' live-fire unit training. It uses a building block approach which sequentially trains and integrates all combat systems into a full combined arms live-fire evolution. The mission of the CAX program is to train a Marine Air Ground Task Force (MAGTF), centered around a

reinforced rifle battalion (the Ground Combat Element or GCE). Emphasis is on planning the integration of fire support and mechanized maneuver in a desert environment, and then executing the plan with the full array of ground and air weapons live-fire. As the premier expeditionary and live-fire combined arms and maneuver training program in the United States, participating CAX units enjoy many unique training opportunities not duplicated anywhere else.

Commanders receive approximately three days of instruction focused on the tactical skills necessary to successfully employ combined arms in a mechanized desert environment. These classes emphasize such skills as fire support coordination and engagement area building.

The first week of CAX focuses on company level training at the 400 series ranges. Individual Marines receive intensive, professional instruction and rehearsed live-fire practical application of fire-and-movement techniques and fortified positions clearing procedures. As individuals, fireteams, and squads perfect their live-fire skills under the close, personal observation of experienced, tactical instructors/evaluators, the training progresses into platoon and company level live-fire combined arms attacks.

The second week of CAX focuses on mounted (helicopter and assault amphibian vehicle (AAV)) tactics. The training then logically evolves into battalion level combined arms evolutions which synergistically bring together all elements of the MAGTF in offensive and defensive scenarios. Detailed after-action reviews (AARs) follow each evolution to reinforce the positive and negative lessons learned at all levels.

The CAX program culminates in the third week with a three day final exercise (FINEX) designed to increase the Marines' understanding of the effects of both his weapon system and those that will support him on the battlefield. This FINEX is a live-fire exercise that does not include force on force training.

TRAINING

Mr. BATEMAN. The Chairman of the Joint Chiefs of Staff's (CJCS) joint training exercise program continues to require a large commitment in funding, personnel, and resources. How do we keep cost down while conducting the necessary training? Are you adequately funded to participate in these exercise? What operations tempo (OPTEMPO) concerns do you have with the current level of Joint Chiefs of Staff exercises?

General KEANE. Army funding in support of the CJCS exercises program has been significantly reduced during the last few years. Starting in fiscal year 1999, Army funding for CJCS exercises has been reduced 30 percent (\$58.2 million to \$40.9 million). Funding constraints have required the Army to reduce participation in CJCS exercises in recent years. Unified commands and Army component commands analyze every training event in CJCS exercises to ensure that Army forces receive the maximum training value for resources expended.

The 30 percent reduction in Army funding for CJCS exercises which was implemented in fiscal year 1999 still allowed the Army to support the Commanders in Chief (CINC's) critical joint training requirements. Because of additional Congressional reductions in Army support to CJCS exercises in fiscal year 2000 (\$10 million), the Army is not adequately funded to support the CINC's critical joint exercise requirements. It has been necessary to reduce Army participation in CJCS exercises due to Congressional funding reductions.

We are very concerned with OPTEMPO and will continue to make every effort to keep it at an acceptable level. While CJCS exercises increase Army OPTEMPO, the primary contributors to increased OPTEMPO levels are operational commitments in Kuwait, Bosnia, Kosovo and the other force presence requirements.

Admiral PILLING. The significance of declining readiness among non-deployed forces is that these units constitute critical follow-on forces that are expected to rapidly deploy in the event of a Major Theater War (MTW). The deeper the "bathtub" becomes, the greater the risk to being able to respond with combat-ready, follow-on forces. The Chairman of the Joint Chiefs of Staff recently assessed higher risk for accomplishing a two MTW scenario. This, in part, was due to the readiness degradation observed among Navy's non-deployed forces.

JCS TRAINING PROGRAM

General LYLES. We keep cost down while conducting the necessary training by restructuring, realigning, consolidating, and elimination.

Restructuring involves changing the forces involved in the exercise. This may involve changes in the numbers and/or types of forces participating, as well as their employment locations. For example, United States Air Forces, Europe participated

in some exercises by flying from home station instead of deploying to another location.

Realigning can be accomplished by changing deployment, employment, or redeployment dates. This can have significant advantages by enhancing joint training through participation in multiple exercises while decreasing deployment or redeployment times for the forces involved and utilizing air mobility assets more efficiently. This may involve a slightly longer time away from home for the forces involved but reduces the number of man-days and potentially eliminates the requirements for a second or third deployment.

Consolidating allows the CINCs and the Air Force to combine exercises to meet multiple objectives. This works well when different CINCs can use the same overarching exercise to execute one or more exercises. For instance, TRANSCOM executed TURBO CHALLENGE in conjunction with PACOM's RSO&I. Combining exercises in this manner allows the Air Force to have personnel accomplish several different training objectives during a single deployment.

Due to our current fiscal constraints, we are not able to adequately fund 100% participation in these exercises. Although not on the Air Force FY01 Unfunded Priority List (UPL), there is a shortfall in the JCS Exercises program. The FY01 President's Budget (PB) requested \$37.1M. This supports only 60% to 70% of Theater CINC requirements. The FY01 Appropriation Committee marks reduced the PB request of \$37.1M by \$12.2M to \$24.9M. This supports only 40% to 50% of the Theater CINC requirements. For example, USAFE program has been funded at approximately 63% of the total requirements since FY96. Wholesale exercise cancellation has been averted by the selective reduction of participation and by operating from home stations, reducing readiness values of the exercises. A reduction in FY01 may force USAFE to curtail or cancel current planned events in support of several joint and combined exercises at the expense of readiness and engagement in Europe and Africa. In addition, USAFE's capability to work and fly with other allied nations and to stand up JTFs for real world operations will suffer.

Overall, the effects on OPSTEMPO from the exercise program is only a small part of total OPSTEMPO and PERSTEMPO. JCS exercises account for 1.4% of the time personnel are on temporary duty (TDY) while contingencies account for 22.7% of personnel TDY time.

General DAKE. The Marine Corps places a high priority on joint training and exercises. Joint and Service exercises are complementary forms of required Service combat proficiency training and not mutually exclusive. Joint exercises allow the Marine Corps to demonstrate its ability to rapidly project forces globally, and also enhance interoperability with other Services, allies and coalition partners. The key to funding, planning, and conducting Service and joint exercises is to ensure we maintain the proper balance between them.

Our Marine Force commanders strive to meet the requirements of multiple commanders. Unlike other Service component commands which characteristically support only one geographic combatant command, each Marine Force supports three combatant commanders' exercise and engagement programs: The Commander, U.S. Marine Corps Forces Atlantic (COMMARFORLANT) supports U.S. Joint Forces Command, U.S. European Command, and U.S. Southern Command, and the Commander, U.S. Marine Corps Forces Pacific (COMMARFORPAC) supports U.S. Pacific Command, U.S. Central Command, and the sub-unified command, U.S. Forces Korea.

KEEPING JOINT TRAINING COSTS DOWN WHILE CONDUCTING NECESSARY TRAINING:

The best way to keep joint training costs down is to ensure that we are conducting only necessary joint training. From a Service perspective, "necessary joint training" is based on joint warfighting requirements. These requirements should be the driving factors behind all Joint Training System (JTS) events. To be "requirements-based," exercises should be scheduled and conducted by forces needing to meet those joint training requirements. Once a force successfully performs all its required tasks, it is then considered trained and ready for joint operations. Any joint training for that force after it meets all its joint training requirements is redundant.

A major challenge to "keeping joint training costs down while conducting necessary training" is that all joint exercises are not based on the joint warfighting training requirements for the forces involved. Combatant commanders also view joint exercises as theater engagement opportunities. Service components are tasked by their combatant commanders to participate in exercises beyond those required for their training in order to support other Service components, staffs, and theater engagement events. From the perspectives of the force provider and the actual par-

ticipating forces, an exercise is an exercise and the same costs are there whether it's warfighting requirements based or engagement requirements based.

JCS EXERCISE FUNDING:

In recent years, JCS exercise funding has decreased, with decrements coming in the year of execution, while joint exercise and engagement requirements have increased. Marine Forces have been placed in a dilemma that challenges their Service-joint exercise balance: either justify to one or more combatant commanders why their respective exercises won't be supported, or fully support all the exercises by taking operation and maintenance (O&M) funds from their Service programs. The funding for Service participation in JCS exercises has not kept pace with the increased joint exercise and engagement activities required by the combatant commanders.

OPTEMPO CONCERNS:

We have OPTEMPO concerns with the increasing number of joint exercise and engagement activities for our finite number of operational units.

Our Marine Forces' staffs are also challenged by the hectic "commander-staff-tempo" to meet the planning and administrative requirements of these multiple exercise programs. One typical joint exercise usually features several conferences for concept development and initial, mid, and final planning. Besides these temporary additional duty (TAD) requirements, the commander and his staff must also train to respond to real-world contingencies in any of their respective combatant commands' theatres. Contingency support in one theatre often does NOT eliminate simultaneous exercise support in another supported theatre.

PERSONNEL TRAINING

Mr. BATEMAN. In your personal opinion, are the personnel within your respective commands receiving the required training to develop the necessary skills to perform all of the tasks that will be assigned to them?

General KEANE. I am confident in our training doctrine and our leaders' abilities to apply it in their training programs to produce trained and ready units. The primary objective of our training strategy is to produce soldiers, leaders, and units trained to a specific Army standard. Army training is adequately resourced to execute the combined arms training strategies to achieve a standard of readiness that supports execution of the National Military Strategy. The combined arms training strategy is an overarching concept that provides training strategies for America's Army. They are task-based, two-year training management programs that use proponent-developed strategies to support unit training. Combined arms training strategies will continually evolve and be refined as units apply these strategies in developing their training and resource requirements.

Admiral PILLING. As part of an effort to reduce the workload on our sailors, we issued a directive that reduced the number of inspections and assist visits imposed on the Fleet during the Inter-Deployment Training Cycle by 25%. By consolidating training evolutions and eliminating redundancy, where it made sense, we have achieved greater efficiency. The additional time given back to the commanding officers allows them to conduct unit training and at the same time improve the quality of life of Sailors.

General LYLES. Our forces are well trained today to perform their missions. The Kosovo operation showed that we have the best-trained force in the world even with the many stresses on our personnel and readiness training. However, the 400% increase in the number of deployed forces since the end of the cold war is straining the ability of the Air Force to continue to meet its training requirements and readiness. High operations tempo, aging equipment, and the cumulative effect of too few dollars raises concerns about future readiness. To ensure the Air Force can maintain its quality of training and readiness in the future will require a decrease in tempo by increasing the force structure and/or reducing our commitments.

General DAKE. Yes. We have developed Occupational Field training tracks which allow all Marines to accomplish tasks/missions appropriate for their rank and experience level.

FUNDING FOR TRAINING CENTERS

Mr. BATEMAN. In your personal opinion, are the training centers in your commands adequately funded and do they have all the necessary equipment to perform their training?

General KEANE. In fiscal year 2001, the training centers' operations are adequately funded to conduct scheduled training rotations. The recapitalization and modernization of the centers, however, are not adequately funded. The opposing

forces (OPFOR) tracked vehicle fleet of M551 and M60A3 tanks and M113 armored personnel carriers continues to age, requiring extensive maintenance costs as these systems quickly approach the end of the useful lives. The instrumentation systems, built 20 years ago with 1970's technology, are losing feedback capability and will not support digital equipment. To continue to garner the maximum training benefit from the centers, and keep them relevant to current and future operational environments, we must modernize the training centers' pre-positioned fleets, OPFOR fleets, and instrumentation systems to provide maximum training benefit for and feedback to the rotational units.

The training centers are given high priority due to initial entry training requirements, but there are still significant unfunded needs for life cycle replacement of organizational clothing and individual equipment, training aids and devices, conduct of field training exercises, barracks maintenance, and garrison support. Additional funding is needed to support new training for a digital force while continuing to train analog systems. Likewise, leader development and self-development programs require additional funding to keep pace with Army Transformation and digitization of the force.

Funding for repair parts, range modernization, combat training center (CTC) modernization, replacement of furniture, and maintenance and upgrade of simulators is much lower than required. Requirements for training aids, devices, simulators and simulations (TADSS) at training bases have either been filled, partially filled, not filled, or are in need of upgrades due to tactical system change, refurbishing due to equipment age, or lack of repair parts. This includes modernization of the CTCs.

Constrained resources either in the training mission area or in program manager programs contribute to shortfalls in total quantities of TADSS being fielded to the training base or to the lack of upgrading or refurbishing the TADSS currently fielded.

Additionally, changing force structure and the fielding of new systems have aggravated the situation at training bases due to the requirement to keep old TADSS needed to train old systems still in the Active and/or Reserve components. Additionally, inadequate TADSS levels and TADSS configured with obsolete systems reduce the ability to train on all required tasks, provide adequate hands-on time, and causes increased TADSS usage to meet the training load.

Admiral PILLING. Training centers have a finite number of aircraft available for training and compete with deploying Carrier Air Wings for parts and maintenance personnel to support these aircraft. As an example, the Navy Strike and Air Warfare Center (NSAWC) has an adequate number of older variant F-14s/F-18s to accomplish their training mission. However, these older aircraft are inherently less capable and require increased maintenance support to maintain a Ready For Training status. Further, parts support is provided at a lower level of priority than for deploying Carrier Air Wing aircraft, and aircraft maintenance is accomplished within the constricts of a civilian contract rather than by Navy assets.

In order to achieve the NSAWC mission, we augment NSAWC aircraft (on a limited, ad-hoc basis) with aircraft from a Reserve Composite Squadron (VFC-13). As a longer term solution, we are working with the Air Force to upgrade the quality of the adversary aircraft.

General LYLES. The Air Force strives to procure and utilize training equipment and simulators used by Technical Training Centers that is the same or similar to what is used in the field. There are significant deficiencies. The 10 Mar. 00 Air Force Inspection Agency "Eagle Look" report on Aircraft Maintenance Training Devices Management identified 25% of 223 training devices as not being current with the weapon system they support; therefore, they could not be used for training. When new operational systems are fielded today, training equipment needed to support the system is procured at the same time as the operational system. This was not true for past legacy systems. For example, some Space Operations training for legacy systems are conducted using outdated, homegrown systems unlike what is used in the field. This will continue until the entire legacy system can be replaced.

A primary concern is the sustainment of training equipment once it has been procured. Adequate funding is not always readily available to maintain training equipment that matches the field. Your continued support and assistance will help us continue to match training and field equipment.

General DAKE. Yes, The funding posture for 29 Palms is a total of approximately \$60M in fiscal year 2001. Maintenance of Real Property (MRP) and Base Operations Support (BOS) make up over 70% of this funding. The Enhanced Equipment Allowance Pool (EEAP) makes up 17%. Funding is sufficient to cover maintenance and personnel requirements. The funding posture is similar to the rest of the Marine Corps in that funding is not robust, but adequate to support the mission without degrading readiness.

TRAINING EQUIPMENT

Mr. BATEMAN. In your personal opinion, is the equipment that the training centers within your respective commands train with the same or similar to the equipment that trainees will be assigned to upon completion of training?

General KEANE. Equipment at the training centers is similar to equipment in the field but I would caveat that training modernization, to include the combat training centers, is not keeping pace with force modernization. In many cases, our training base receives equipment years after a trainee's arrives at their follow on unit.

Some soldiers are being "trained down" to outdated automation systems rather than "trained up" to the latest systems already in the field because the available equipment will not accept the upgraded software. This necessitates additional training time at the soldiers gaining unit to bridge the gap.

Admiral PILLING. The Navy trains and deploys onboard the same ships and aircraft they train with during the Inter-Deployment Training Cycle. Every effort is made at our fleet training commands to provide a training environment similar to at sea conditions.

EQUIPMENT SIMILAR THAT TRAINEES WILL BE ASSIGNED

General LYLES. For the most part, training equipment and simulators used by Technical Training Centers are the same or similar to what is used in the field. However, there are significant deficiencies. The 10 Mar. 00 Air Force Inspection Agency "Eagle Look" report on Aircraft Maintenance Training Devices Management identified 25 percent of 223 training devices as not being current with the weapon system they support; therefore, they could not be used for training. When new operational systems are fielded today, training equipment needed to support the system is procured at the same time as the operational system. This was not true for past legacy systems. For example, some Space Operations training for legacy systems are conducted using outdated, homegrown systems unlike what is used in the field. This continues until the entire legacy system can be replaced.

Technical training's biggest problem is sustaining training equipment once it has been procured. Just recently, AETC was able to replace outdated 386 computers at Keesler AFB, where communication/computer training is conducted, with state-of-the-art computers. Unfortunately, adequate funding is not always provided for technology refresh efforts needed to keep training equipment current, matching what is used in the field. While funding has been provided for hardware, no funding has been programmed for interactive courseware development-training modernization that is critical in ensuring students arrive mission-ready to their first duty stations. Sustaining training equipment due to rapidly changing technology is difficult to fund in today's fiscally constrained environment.

For Airlift/Tanker, Fighter, SOF, and Air Battle Manager flying training most equipment is the same or similar to equipment used in the field. C-130s training at Little Rock is performed exclusively on C-130Es, while the operational fleet consists of various models (E, H1, H2 and H3). Since C-130Es represent only about 43% of the total C-130 fleet, most operational units must accomplish some difference training on their assigned model aircraft. This training varies from model to model. E-to-H1 training may require only a short top-off course, whereas E-to-H3 training is much more extensive. The new C-130J (and the future C-130X) are different enough from the current fleet and each other to require their own unique training systems. The C-5, C-17, and C-141 fleet at Altus is representative of the operational fleet. However, unlike the C-17 and C-141, the C-5s's cargo compartment trainer is inadequate (a metal platform with metal poles defining the width and breadth of the cargo compartment only). Load masters depart Altus as unqualified loadmasters. At their home they require an average of 120 days to achieve full mission ready status, to include survival school, thus driving a bill for operational units and impacting their C-ratings. The KC-135R fleet at Altus is not compatible with the KC-135E training some AFRC/ANG crews receive. The R-model and E-model have different engines, engine instrumentation, electrical systems, and auxiliary power units. Crews go to a follow-on difference course (2 weeks) to fly the E-model after training at Altus. In addition, while the front-end crew on KC-135R models fly in a full-visual color display environment with up-to-date avionics, the boom operators (who deliver the fuel—aircraft's primary mission) train on 1960s circa technology, two dimensional "pong-like" screens with circa 1950s/1960s technology simulated communications and life support equipment. The result is some negative learning and added flying required for boom operator students. [Booms do not drive sortie generation, pilot students do.] Neither AETC nor AMC were able to secure funding in the Program Objective Memorandum (POM) for an upgraded simulator although both commands supported it. F-16s at Luke AFB are Block 25

and 42. No operational units have these blocks of aircraft. Even though Block 25/30 and Block 40/42 aircraft are similar, there are enough differences to impact training, since AETC aircraft are frequently not upgraded to the level of the aircraft in the field. NVG training is still being worked as an issue, and the Block 50 HARM Targeting System is a very different weapon system and mission that will require academic training at Luke followed by flight training once operational. Training equipment for the F-22 is being procured as part of the acquisition process and will, therefore, be the same as fielded aircraft. For Special Operations Forces, the MC-130H Talon II is the same version for both training at Kirtland and in the field. However, for the MH-53, training is accomplished using an older J-model while the field uses the M-model which has an improved navigation and electronic warfare suite. Students trained in the J-model require additional training and certification at their operational units in the MH-53M. Additionally, in the MC-130, Kirtland trains crews in the MC-130P (Combat Shadow), an AFSOC version of the HC-130. The Combat Shadow has improved navigation systems, but an older version radar than the ACC field units. For HH-60 training, the same version helicopter is used, but without the Integrated FLIR (Forward Looking Infrared) system that allows enhanced crew capabilities for night/low visibility conditions. For AFSPC and AMC future crewmembers the UH-1N is the same version for training at Kirtland and in the field. The training equipment used for Air Battle Managers is the same or similar to equipment used operationally.

General DAKE. The equipment at our Formal Training Schoolhouses is the same or similar to that which our Marines will use when they reach the Marine Operating Forces.

LEVELS OF TRAINING

Mr. BATEMAN. In your personal opinion, are you, within your respective services able to accomplish the level of training required by the organizations that trainees are assigned?

General KEANE. Yes. The principal goal of initial entry training units is to develop soldiers of character who are competent in their warfighting and technical skills, possess warrior spirit, successfully contribute to their first units, and successfully complete their first enlistment. We maintain a dialogue with the gaining units to gauge the quality of our product. We balance unit requirements with our ability to deliver trained soldiers within the limits of time, money, and available resources. There are sometimes resource constraints that do not allow us to expose soldiers to every piece of equipment they may encounter at their first unit, but we deliver soldiers with the fundamental skills that provide the basis from which units can further develop them into seasoned veterans.

Admiral PILLING. The Navy's primary combat training is conducted during the Inter-Deployment Training Cycle. Our ships and aircraft undergo maintenance and sharpen warfighting skills and proficiencies that have migrated to a basic level due to crew turnover and a lack of opportunity to train while in maintenance periods. Advanced training allows us to deploy combat ready troops. The Navy has found that the cyclical posture makes the most effective use of constrained resources. However, this efficiency means that funding shortfalls, when they occur, have a greater and more rapid impact today than in the past.

General LYLES. Our forces are well trained today to perform their missions. The Kosovo operation showed that we have the best-trained force in the world even with the many stresses on our personnel and readiness training. However, the 400% increase in the number of deployed forces since the end of the cold war is straining the ability of the Air Force to continue to meet its training requirements and readiness. High operations tempo, aging equipment, and the cumulative effect of too few dollars raises concerns about future readiness. To ensure the Air Force can maintain its quality of training and readiness in the future will require a decrease in tempo by increasing the force structure and/or reducing our commitments.

General DAKE. There are no readiness impacts that I am aware of that can be traced back to shortfalls in the institutional training base.

ADEQUACY OF TRAINING

Mr. BATEMAN. Forces engaged in peace operations often lack the opportunity to fully train in their warfighting skills. What efforts are being taken to provide adequate training when these forces return to regular units?

General KEANE. Since the end of the Cold War, the Army has significantly increased its role in peace operations. We have deployed countless soldiers and units across the globe to perform humanitarian and combat tasks. In every deployment, the Army has captured the lessons learned, integrated them into our training base,

and trained them at our combat training centers. Last year, General Shinseki mandated that units would execute a deployment exercise as part of their battle command training program warfighter exercise. Additionally, the Combat Maneuver Training Center and Joint Readiness Training Center execute mission rehearsal exercises for units selected for deployment to Bosnia or Kosovo. This training prepares soldiers and units to handle the arduous tasks associated with peace operations, as well as maintain combat readiness. We have found that it takes roughly a year to return these soldiers and units to a high readiness state once they re-deploy to home station. This readiness is achieved through annual training requirements for weapons, individual soldiers, and unit training.

Admiral PILLING. The Navy prepares itself during the Inter-Deployment Training Cycle to conduct a broad spectrum of operations. Whether we are flying air strikes over Kosovo, or maintaining a forward presence in the Gulf our forces are ready to conduct combat missions from the sea.

General LYLES. Returning units enter a 'Pause' period followed by a 'Normal Training and Exercise' (NTE) period, in accordance with AEF procedures. The length of time required to regain pre-deployment skill levels is dependent on the length of the previous deployment, the experience level of the crews, as well as the types of missions and aircraft flown. Weighing these factors, the retraining time is scheduled based on the extent the unit was deployed and the personnel and operations tempo they maintained. The Pause and NTE time frame, for other factors (training, equipment, deferred maintenance, and manpower), is also very dependent on the specifics of each unit/capability.

General DAKE. Whenever a unit or detachment is deployed apart from the parent unit for a period of time, leaders and commanders at all levels make an assessment of the subordinate units' capability to execute its warfighting missions upon return. If a unit's warfighting capability has been degraded, then leaders and commanders will design an accelerated training program to assist the unit in regaining proficiency in individual mission essential tasks and overall unit capability. For units at home station, the training will involve exercises and training events in and around the home station that address warfighting deficiencies. Additionally, units may be scheduled to participate in a Combined Arms Exercise at Twenty-nine Palms, California, or a unit may be scheduled to enhance individual and unit skills at the Mountain Warfare Training Center in Bridgeport, California.

Units forward deployed, both Marine Expeditionary Units (Special Operations Capable) (MEU(SOC))s, as well as infantry battalions, artillery batteries, and fixed wing and rotary wing squadrons deploying as part of the Marine Corps Unit Deployment Program (UDP), have an aggressive schedule of events during their deployment that normally includes large scale exercises involving some degree of sustainment training. For example, from April through September 1999, 26 MEU(SOC) participated in Operation SHINING HOPE, providing security to Albanian refugees fleeing Kosovo; Operation NOBLE ANVIL/ALLIED FORCE, NATO's bombing of Kosovo; and Operation JOINT GUARDIAN, NATO peace enforcement of Kosovo. While conducting port visits following these operations, 26 MEU(SOC) was tasked to provide support to Operation AVID RESPONSE, earthquake relief operations in Izmit, Turkey. Following the termination of U.S. support to Operation AVID RESPONSE, 26 MEU(SOC) immediately went into preparation for two significant bilateral training exercises designed to work on improving relation with the participating nations, while also providing valuable sustainment training for the Marines and sailors of 26 MEU(SOC). Units participating in the Unit Deployment Program are also scheduled to participate in exercises that take place in the Pacific theater. The Foal Eagle and Balikatan series of exercises are two examples of these exercises, which provide excellent individual and unit sustainment training opportunities.

Mr. BATEMAN. Given the high pace operations, a smaller force structure and constrained resources, can you say unequivocally that today our forces are receiving the same quality training and training experience and are obtaining levels of proficiency across the spectrum of skill, requirements as five or ten years ago?

Admiral PILLING. Carrier Battle Groups today, in general, are deploying at a level of readiness below where they were a decade ago. While nearly every unit in the past decade has deployed combat-ready, that degree of readiness has diminished over time. It is important to note that Defense Planning Guidance specifies a range of readiness each unit must be within before entering their theater of operations. Over the past decade, Navy has remained within this range.

QUALITY TRAINING

General LYLES. Today we operate throughout the world with a 40% smaller force structure and with two-thirds fewer overseas bases than only a decade ago. As a result, almost 40% of the deployable active air force are operating outside the U.S. from 12 overseas bases and 16 forward operating locations. Deployments have become a way of life for our airmen.

The Expeditionary Aerospace Force (EAF) concept represents a transformation from Cold War operations, changing how we organize, train, equip and sustain our forces to meet the challenges of today's global security environment. Organized around 10 EAF's employed in pairs for 90 days over a 15-month cycle, the EAF concept provides better trained aerospace forces to the CINC's while adding predictability and stability to the lives of our airmen.

The combination of several years of constant high operations tempo, aging aircraft and years of underfunding our spares account have taken a toll on readiness and understandably raises concern for the future. Recent operations in Kosovo though, reinforced the fact we have the best-trained force in the world. Our fiscal year 2001 budget program is based on sustaining our decisive fighting force through a balanced program that addresses today's readiness while fostering innovative solutions to the challenges of the future. We continually scrutinize the state of our overall readiness and with the help of Congress are taking positive steps to correct deficiencies. To ensure the Air Force can maintain its quality of training, proficiency and readiness in the future will require the continued support of the Administration and Congress.

General DAKE. The readiness of our Operating Forces is the highest priority for the Marine Corps. It was ten years ago and remains so today. Not only does the training standards we hold ourselves to remain high, but we have strengthened the way we make and transform Marines. We recruit the highest quality men and women. We retained our proven, tough, demanding recruit training program and enhanced it to ensure our Marines are ready to prevail in the future. Following recruit training, these new Marines come under the Cohesion program, which carries them as a team through their military occupational specialty training into the Operating Forces, resulting in more cohesive units. This transformation process is sustained through the reinforcement of core values and by holding Marines strictly accountable throughout their careers. Our quality training and transformation process provides stronger, smarter, and more capable Marines who have the maturity and flexibility to meet the challenges of the 21st Century battlefield. We cannot use the term "unequivocally" because the yardsticks to measure "now" and "ten years ago" are not available because both technology and the type and size of the anticipated adversary have changed. However, we can say that in many cases Marines are receiving better training than they were. For example: Technology infusion at the Marine Corps Communication Electronics School has reduced the time to train, improved retention and decreased attrition in Basic Electronics training. The Training Development System, implemented in the last year, requires entry-level training to focus on core requirements and a distribution of follow-on training. This results in providing more Military Occupational Specialty qualified, trained Marines to the Operating Forces than in the past. To some degree, austerity has forced us to find ways to do things smarter, cheaper, and in many ways better.

Mr. BATEMAN. What has been the impact on readiness of these diversions of funds from training accounts? How do you make up for training that did not occur?

Admiral PILLING. The Navy has seen a slight decline in training levels as reported in the Status Of Resources and Training System over the past ten years. That said, today's Navy is the most capable in the world and continues to demonstrate forward-deployed readiness in meeting America's security obligations across the globe. It is important to note that Defense Planning Guidance specifies a range of readiness each unit must be within before entering their theater of operations. Over the past decade, Navy has remained within this range.

General LYLES. The Air Force maintains a delicate balance between mission and support areas. Decentralized execution of funding provided to our Commanders gives them the flexibility to balance mission and support requirements. We are not aware of any impact to readiness due to funding transfers.

General DAKE. Diversions in funds have affected the preparation for exercises. Training exercises are tremendous builders of combat readiness due to the synergies of combining realistic, combat-scenario operations and logistics in high tempo. Individual and small-unit preparation training in advance of the exercises must be performed without, or with less than optimal resources. To gain training synergies during the exercises, equipment must be ready and capable. Individual and small-unit training in advance is often sacrificed immediately prior to exercises in deference

to performing remedial maintenance on the equipment so that the unit is ready for the exercise. While we can never make up for training that did not occur, commanders make every concession to try to tailor their units' training schedules so that the participants can ramp up steeply but safely to training standards. Our training centers accommodate the commander's needs to the greatest feasible extent. Recognizing that we can never make up for lost training, we find that we can't afford to train every Marine in every task that might be expected of him or her. Using the axiom of the student now becoming the instructor, we assure that specialized skills are resident in enough Marines that we can collectively meet all requirements without excessive expenditure or unacceptable personnel tempo.

Mr. BATEMAN. Would it not be better to adequately fund the accounts that habitually are underfunded and therefore, provide enough funds for training so training doesn't need to be cancelled?

Admiral PILLING. Navy's overall readiness trend continues to be satisfactory. Deployed readiness remains high, but because of our cyclical readiness posture, we expect non-deployed readiness to be at a lower level of readiness. This is a direct result of units entering the Inter-Deployment Training Cycle, where ships and aircraft undergo maintenance and warfighting skills and proficiencies migrate to a basic level due to crew turnover and a lack of opportunity to train while in maintenance periods. We have found that this cyclical posture makes the most efficient and effective use of constrained resources. However, this efficiency means that funding shortfalls, when they occur, have a greater and more rapid impact today than in the past.

General LYLES. The Air Force budget submission represents a balanced program of priorities within current funding constraints. Our budget request reflects the Air Force's top priorities and our Unfunded Priority List (UPL) prioritizes those requirements that could not be funded in the budget.

General DAKE. Yes, habitually underfunded accounts eventually become regarded as "bill payers" and as a result the quality of their intended purpose is eroded. Cancellation of training is a serious matter. The scheduling and timing required to get the right person to the right training is often subject to opportunity in a high Op-tempo environment. Cancellation therefore often equates to a training opportunity lost and a capability never attained.

SPARE PARTS

Mr. BATEMAN. The committee is aware that spare parts are scarce and mission capable rates have suffered as a result in all the services.

What is your sense of the adequacy of spare parts in your major operational units?

Admiral PILLING. Spares availability for major operational units is for the most part sufficient, though there are pockets of concern that need to be resolved. The most challenging area is aviation spares allowances in support of non-deployed units. Spare parts levels on deployed units are adequate to support the current operational tempo, but achieving and maintaining deployed unit spare part support has meant diverting assets from non-deployed units. A recent study of the Navy's capacity to surge multiple aircraft carrier battle groups confirmed that a great deal of aviation spare parts pooling and diversion from shore sites would be necessary to support some wartime scenarios. The majority of the support problems result from imbalances among the appropriated and working capital fund accounts provided for spare parts as described below in question 35. During the last Program Objective Memorandum (POM) and Budget cycle, the Navy began a concerted series of actions to address these spares support problems. In particular, the Navy has addressed shortfalls with the Aircraft Procurement, Navy, Budget Activity 6 (APN-6) account that is used to fund planeside spare parts on ships and at naval air stations. Due to lead times involved with the procurement of technologically complex aircraft spare parts, these actions will take time to manifest themselves in the form of improved readiness.

SPARE PARTS—ADEQUACY

General LYLES. Anecdotal evidence indicates spares support to the field is generally improving. Backorders for reparable spare parts have been reduced 54% from December 1998 to June 2000. Deliveries are ahead of schedule for the FY99 add of \$382M in Obligation Authority for "bow wave" requirements to restock shelves. In addition, the get well program for engines is making slow, but steady progress; there are currently only 6 of 26 engine types Air Force wide not meeting War Reserve Engine (WRE) requirements. Along with Air Force efforts to improve reparable spare parts availability, we have partnered with the Defense Logistics Agency to execute the Aviation Investment initiative for consumables. DLA is investing

\$500M over a four-year period to increase support levels for aviation and engine related parts; 53% of this is targeted for Air Force weapon systems.

The latest monthly (May 2000) Total Not Mission Capable for Supply (TNMCS) rate for Air Combat Command fighter aircraft is 11.4%, the best seen in 24 months. The overall Air Force TNMCS rate decreased (improved) from 16.1% in Sep. 1999 to 13.4% in May 2000. The Air Force remains cautiously optimistic that the supply rate will continue to improve. However, future years' full funding is needed to sustain improvements in supply availability. In addition, aging aircraft, high-demand aircraft issues, and depot workload transition difficulties continue to pose challenges for the supply system.

General DAKE. We are optimistic that recent additional funding for spare parts of equipment in our major operational ground units will be adequate in the short term. Additionally, the introduction of new systems to the operating forces will help sustain ground equipment readiness rates.

Our major aviation operational units sense of adequacy of spare parts can only be viewed in relation to all measurements as outlined in the graphs and text below. Not Mission Capable Supply (NMCS) represents the percent of time that an aircraft is down for parts. This measurement provides an indication that there is a parts problem. In summary, on the fixed wing side, the adequacy of spare parts has been a problem due to problems with the AV8B engine. The removal, inspection and repair of these engines resulted in unanticipated demand for spare parts. Increasing the availability and safety of the AV8B aircraft has been the subject of the Harrier Action Review Panel (HARP). On the rotary side, the adequacy of spare parts has increased as we are overcoming problems with CH53, Gearbox assemblies, Swash plates and Rotor Compressors and CH-46 Transmissions. Details are as follows:

On the Fixed Wing side we have experienced a slight decreasing trend in readiness, from 74.5 percent in FY90 to 71.7 percent in FY00. This decline can be attributed to a noticeable increase, from 11.1 percent in FY90 to 16.7 percent in FY00, in the percentage of time that an aircraft is down for parts. This is illustrated on the graph below as Not Mission Capable Supply (NMCS). Issues with the AV8B Engine have caused a significant increase in NMCS time and a resulting decrease in Mission Capable rates.

[The information referred to can be found in the Appendix on page 103.]

On the Rotary Wing side we have experienced a continued increasing trend in readiness, from 64.8 percent in FY90 to 76.3 percent in FY00. This rise in Mission Capability (MC) results from a significant decrease, from 23.3 percent in FY90 to 12.8 percent in FY00, in the percentage of time that an aircraft is down for parts. This is illustrated on the graph below as Not Mission Capable Supply (NMCS). The decrease in readiness that occurred in fiscal years 1996 and 1997 was as a result of problems with CH53, Gearbox assemblies, Swash plates and Rotor Compressors and CH-46 Transmissions. The focused effort to resolve these issues has resulted in the steady upward trend in readiness since FY96.

[The information referred to can be found in the Appendix on page 103.]

Mr. BATEMAN. What do you think the principle reasons are for spare parts shortages?

Admiral PILLING. A combination of factors in recent years, has led to a decline in available aircraft spare parts. The primary reason for spare parts shortfalls has been the increased age of aircraft, coupled with the upward demand for material to maintain these aging aircraft. We are seeing trends where components are failing more often and repairs to these components are more complex and longer to repair. In a growing number of cases we are experiencing failure of items which had never been forecasted to fail. This growing demand level continues to squeeze the spares budgets and is exacerbated by the shortage of adequate funding within Naval Air Systems Command (NAVAIR) to support program related logistics/program related engineering. These two efforts are central to the process where engineers keep ahead of reliability problems and develop engineering fixes to maintenance problems.

A second major cause for spares shortfalls has been the imbalance between the three inter-related funding streams which support aviation spares levels. Frankly, the significance of maintaining the balance of these funds had not been determined until this past Program Objective Memorandum (POM) cycle. The specific accounts in questions are:

- **Aircraft Procurement, Navy-Budget Activity 6 (APN-6)**—APN-6 is used to procure planeside spares commensurate with procurement of new aircraft and modification of existing aircraft. Allowances are computed via a readiness based spares analysis, a process which ties the spares package for an aircraft to the readiness that each part provides to the overall availability of the aircraft to perform its mission. Since these planeside spares allowances are computed with a readiness based

model, any APN-6 shortage will directly reduce the available spares, and will directly negatively impact readiness.

- **Operations and Maintenance, Navy (O&M, N)**—O&M, N funds are provided in the Flying Hour Program (FHP) for customers to buy spares when needed in support of operations and training. Ideally, when a spare is needed to repair an aircraft, the spare was previously bought with APN-6 funding and is available on the planeside shelf to complete the repair. FHP funds are then used to replenish the planeside shelf stock spares as they are consumed in support of daily operations. There have been instances in the past, where planeside shelf stock was used to complete repairs, but replenishment was delayed due to lack of FHP funding. These replenishment delays naturally result in queuing problems throughout the entire supply chain and if not stemmed, could result in a large bow wave of unfunded requirements. There have been instances where a lack of FHP funding has resulted in deferring replenishment/repair action from one fiscal year into the next.

- **Navy Working Capital Fund (NWCF) and Defense WCF (DWCF)**—Wholesale supply system spare parts are bought and managed by the Navy and the Defense Logistics Agency (DLA) through the use of NWCF and DWCF obligational authority. These wholesale spares are procured and stocked in order to prevent a potential “lead-time delay” from manufacturers, distributors, and civilian/military repair depots by ensuring availability when needed. In short, the working capital funds buy the readiness lead-time for the operators. If the spare is not procured in advance of Fleet demand, then there is the risk that material will not be on hand to support operator needs.

The relationship and balance between these accounts (APN-6; FHP O&M, N; and NWCF/DWCF) is critical to providing readiness through spare parts support. Underfunding of appropriated accounts (APN-6 and FHP O&M, N) will have a direct negative impact on wholesale obligational authority (NWCF/DWCF) resulting in less than adequate spares support for required Fully Mission Capable rates. The underfunding of the APN-6 and FHP O&M, N accounts described above have impacted NWCF/DWCF obligational authority adversely over the past few years. Maintaining these three funding streams is key to maintaining the overall health of aviation. All of the factors and relationships described above have resulted in degradation of spare parts supplies in support of Naval Aviation.

Last, over the past decade Navy, as well as other services, has reduced wholesale inventories in response to Department of Defense and National Performance Review goals. These inventory reductions have resulted in elimination of intermediate spares levels, more reliance on agile transportation, and a reduction of obligational authority at a time when additional funding is required to support the growing spare requirements for our aging aircraft. Reduction of inventories is not in itself a bad objective . . . inventory reductions out of the context of the overall logistics and maintenance process can lead to inefficiencies and a decrease in aircraft readiness.

General LYLES. The Air Force Materiel Command looked at this and concluded a primary reason was the constrained spares funding of the mid 1990's which leaned out inventories. With the help of Congress, the Air Force is making significant strides to fully fund spares requirements. However, the funding shortfall is just one part of the problem. A combination of other factors include increased failures due to aging weapon systems, technical surprises, poor forecasting, production shortages and vanishing vendors, aggressive inventory reductions, degraded consumable item support, and the effects of workload transfers associated with the BRAC closures. The Air Force is committed to improving spares support and several initiatives are underway to attack spares problems on all fronts.

General DAKE. As equipment continues to age and is maintained beyond its planned service life, unplanned failures or spikes in usage may occur which may necessitate additional repair part funding. Ultimately, the answer to achieve sustained improvements in our ground equipment readiness is to continue to modernize and field equipment with high reliability which will help minimize the demand for repairable funding.

The principle reason for the spare parts shortage for our fixed wing aircraft is directly attributed to problems with the AV8B engine that resulted in over fifty bare firewalls. Improper manufacture of critical components has made it essential to remove and replace engines and engine related components. The removal and replacement of these engines resulted in a surge of unanticipated requirements for parts that are not normally expected to fail.

The problem with the failed parts was the result of a quality control process problem that emerged on the Pegasus assembly line. Although not known to be directly responsible for any of the FY99 Class A mishaps, these problems are critical and

have contributed directly to the large number of aircraft without engines and the very low availability across the Harrier fleet.

Historic underfunding of the Reliability Centered Maintenance concept has also been targeted as a cause of recent aircraft/engine related readiness problems. Specifically in the Component Improvement Programs (CIP) and Program Related Logistics (PRL) accounts. These accounts are critical to long-term engine performance and reliability. They provide for data collection, trend and cause analysis, corrective design/engineering and improved component testing. Over the last 5-7 years, as funding has decreased, the number of unanswered Engineering Investigations has grown and the length of time to field approved changes has reached an average in excess of 9 years. Program funding level has been sufficient only to be reactive to mishaps vice proactively identifying and correcting problems before they lead to mishaps. The Marine Corps recognized this and in 1997 formed the Harrier Review Panel to identify the who, what, where and how of required corrective actions.

Mr. BATEMAN. The committee is aware that one of the most often used methods of overcoming parts shortages is to cannibalize parts from a like type of aircraft and put it on the vehicle or aircraft to make it operational.

What is your cannibalization policy?

Admiral PILLING. While the Navy does not have a published goal for cannibalizations, recent fleet surveys have indicated that the current level of aircraft spare part cannibalizations is adversely affecting job satisfaction of maintenance personnel and pilots. At a minimum, Navy would like to see a decline in the total cannibalization rate to the levels achieved in 1995 & 1996. Some level of cannibalization is inevitable in order to maintain the deployed squadrons at the highest levels of readiness. However, the current level of cannibalization is impacting retention and is therefore unacceptable.

General LYLES. The Air Force cannibalization policy allows a cannibalization action to occur when a not mission capable (NMC) condition will prevent the accomplishment of a mission and the required assets are not immediately available from supply. Prior to a cannibalization action, a verification is conducted confirming the required component can not be sourced from on base assets within the allotted time. In addition, the cannibalization decision authority considers man-hour availability, impacts, and the risks of damaging serviceable equipment. Additionally Major Command guidance for cannibalization actions identifies specific procedures, individual responsibilities, and documentation requirements.

General DAKE. The Marine Corps does not utilize cannibalization to maintain its ground equipment readiness. However, it can be authorized on an exception basis when an operational commitment is imminent, and only when a required part cannot be obtained in a timely basis. Approval for such a procedure is strictly regulated and controlled.

For Aviation the cannibalization policy as outlined in OPNAV instruction 4790.2G. is as follows:

a. Ensure an aggressive and effective management program is in place to control cannibalization of aeronautical equipment. To the maximum extent possible, ensure selective cannibalization actions are planned to prevent aircraft from being in a non-flyable status for more than 30 consecutive days.

b. All cannibalization actions shall be authorized and directed by Maintenance Control (a division within a squadron).

c. All levels of command are directed to actively pursue appropriate courses of action to properly manage cannibalization within their areas of purview. In assessing the effectiveness of this undertaking, it is imperative management guides, such as supply material availability, A799 rate, repair turn around time, point of entry effectiveness, and supply response time be considered in conjunction with such measurement criteria as cannibalizations per 100 flight hours and cannibalization maintenance man-hours per cannibalization.

Mr. BATEMAN. Do you maintain good records of the cannibalizations that take place?

Admiral PILLING. Records are not centrally maintained for spare part cannibalizations associated with ships and submarines. Because of maintenance procedures and on board system redundancy, ship and submarine spare part cannibalization are infrequent and have only a very minor, if any, impact on readiness. Cannibalizations of spare parts among aircraft are much more prevalent in the Navy. Because spare parts cannibalizations are much more prevalent, accurate centralized records are maintained and updated real-time in the Naval Aviation Logistics Command Management Information System (NALCOMIS). Maintenance personnel input all cannibalization actions in NALCOMIS as they occur. These cannibalization records are maintained in Naval Aviation Logistics Data Analysis

(NALDA) database. These records can be accessed electronically on demand at various Navy commands.

General LYLES. Yes, the Air Force policy requires documentation anytime a cannibalization action is taken. These actions are recorded in the core automated data system (CAMS). In addition these maintenance actions are reviewed and validated to ensure accuracy.

General DAKE. If cannibalizations are authorized for ground equipment, strict managerial control practices are adhered to at the command and maintenance facilities.

For Aviation units all cannibalization actions are required to be documented as outlined in OPNAV instruction 4790.2G. They are documented daily and reported via maintenance data systems monthly to be viewed at all levels of the Chain of Command.

SPARE PARTS

Mr. BATEMAN. What are the trends?

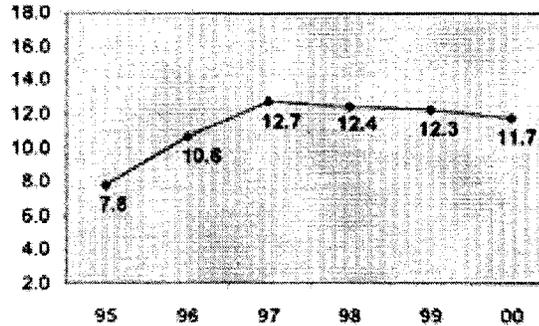
Admiral PILLING. The cannibalization trend per 100 flight hours for the past 10 years appears below. The cannibalization rate in 1999 indicated the first downturn in that metric since 1995. The source of the information is the Naval Aviation Logistics Data Analysis (NALDA) database.

Year	Rate
1990	10.4
1991	10.4
1992	10.2
1993	9.8
1994	9.6
1995	8.4
1996	8.4
1997	9.1
1998	9.3
1999	8.9

General LYLES. Cannibalization actions per 100 sorties for overall Air Force have leveled off in recent years but we continue to pursue spare funding and policy changes to drive further reduction. As the chart below indicates, FY00 CANNs per 100 sorties were 11.7 (through May 2000) versus 12.3 for FY99-lowest rates since 1996.

Although CANN rates decreased for most weapon systems, we have focused on several critical aircraft spare parts issues that remain a source of CANN activity. The B-1 has experienced about 84 CANNs per 100 sorties since FY97. The C-5 MC rates increased from approximately 45 to 55 percent since FY95. We expect ongoing initiatives to diminish these rates over the next year.

**OVERALL AIR FORCE
CANNIS PER 100 SORTIES (FY)**



Source: Multi-echelon Resource & Logistics Information Network (MERLIN)
AF/HSY
Aircraft included: A-10, F-4 (through FY98), F-15, F-15E, F-16, F-111 (through
FY97), B-1, B-52, C-5, C-17, C-141, E-3, C-130, and KC-135

General DAKE. There are no outstanding trends for ground equipment. Cannibalization is the last resort for supply support in the Marine Corps.

For Aviation units from FY96 until present there has been a 28% increase in the number of cannibalization actions for fixed-wing aircraft and a 3% increase for rotary-wing. The increase in cannibalizations on the fixed wing side is also attributed to the problems outlined above with the AV8B engine.

SAVINGS FROM A-76 STUDIES

Mr. BATEMAN. The pressures on service budgets are obvious. One key of many for success, is the aggressive privatization, or A-76, studies underway that must create substantial savings. What will happen to your budget if your A-76 studies yield the savings you projected?

General KEANE. If our A-76 studies don't yield the savings reflected in our budget, installations will have to re-prioritize requirements to ensure that all salaries and other "must-fund" requirements are paid.

Admiral PILLING. The savings have already been taken against applicable program elements. The A-76 program is an element of the Navy's Strategic Sourcing initiative. This effort recognizes the benefits of doing a review of an entire function using business process efficiency efforts in conjunction with A-76. The net effect of the Strategic Sourcing effort is providing installation infrastructure with a greater ability to streamline operations and achieve cost saving using a variety of approaches. Using an approach that is tailored to meet the unique requirements of a function provides increased flexibility to achieve targeted savings. Our experience to date with 44 A-76 studies completed demonstrates the projected savings target is achievable. After all efforts have been exhausted to achieve efficiencies (and total projected savings), if a shortfall still exists then other programs will be reduced, deferred or eliminated. Across the Future Years Defense Plan (FYDP), the solution would require transferring resources from other programs or recapitalization accounts back into base operating support. This is very unpalatable because of the negative effect it would have on force structure and long-term readiness.

General LYLES. In the past three years, we have experienced between 35% and 40% savings for Air Force cost comparisons. However, if a particular A-76 cost comparisons does not provide the expected savings, any shortfalls will be covered within Air Force Total Obligation Authority. The Air Force has taken the expected savings into account and allocated those savings to force modernization priorities through the outyears. A-76 savings are clearly contributing to the cost effectiveness of the Air Force.

General DAKE. The Marine Corps is continuing to aggressively pursue the identification of opportunities for potential A-76 competitions. If these opportunities do not yield the savings identified, the Marine Corps will continue to search out other areas where Business Process Reengineering, Regionalization, Activity Based Costing, and other improvement methodologies may be utilized. We anticipate that we will make our projected savings even if additional A-76 opportunities are not forthcoming.

SENIOR READINESS OVERSIGHT COUNCIL

Mr. BATEMAN. a. In your opinion, how effective has the Senior Readiness Oversight Council (SROC) been since its inception?

b. What significant contributions has the Council made in dealing with readiness issues?

c. What are some of the tangible items that have emerged from this process?

d. Since the inception of the JMRR process and the SROC a little more than a year ago, how have these reviews improved our ability to assess readiness? What trends have been identified as a result of these reviews?

General KEANE. a. The SROC has been an effective mechanism for addressing key readiness issues. The monthly meeting of the senior civilian and military leadership has provided a forum for examining both near- and far-term readiness. The flexibility of the Office of the Secretary of Defense in determining agenda items has ensured that current, relevant topics were discussed.

b. The SROC, together with the Joint Monthly Readiness Review (JMRR) and the Quarterly Readiness Report to Congress (QRRR), has provided greater insight into Army readiness at the operational and strategic levels. In particular, it has given the Army and other Services the opportunity to communicate issues and trends and to develop coordinated approaches toward problem resolution.

c. The SROC process has highlighted many of the Army's top readiness concerns and contributed to addressing these concerns in the past few years. Tangible results include: increased funding for recruiting; formation of an integrated process team to review current chemical-biological defense readiness standards; detailed planning for Balkans disengagement; and decisions regarding the equipping and locating of war reserve pre-positioned sets.

d. The JMRR ties together all levels of readiness assessment by providing a comprehensive analysis of the military's ability to execute the National Military Strategy. The combatant commanders in chief and combat support agencies identify readiness deficiencies that are reported to the SROC each quarter, which results in direct visibility by senior decision makers. This process has identified several trends relevant to the Army, i.e., shortages of combat support/combat service support assets, the need to replace aging equipment, shortages of key personnel, and shortages of strategic sea and air lift assets.

Admiral PILLING. a. From the Office of the Chief of Naval Operations perspective, the SROC has been effective in the following ways:

(1) Visibility of U.S. Navy Readiness issues at the Office of the Secretary of Defense (OSD) Level.

(2) OSD visibility of joint readiness issues, including those relating to the U.S. Navy.

(3) Consensus building between Services, Joint Staff and OSD on implementation of new laws or programs.

b. While it is difficult to identify a readiness issue that was resolved solely through the Senior Readiness Oversight Council (SROC) process, it is clear the SROC process ensures senior leadership visibility on key readiness issues on a monthly basis. As stated above, the consensus building within the Department of Defense is critical when dealing with the Planning, Programming, and Budgeting System process.

c. The key benefit of the Senior Readiness Oversight Council (SROC) process is the coordination between the Services, Joint Staff and OSD on issues prior to the briefing. The SROC process allows different organizations within the Department of Defense to work together on issues in an efficient and timely manner. Otherwise, issues of readiness interest could be assigned for group study and be delayed in committee. While the SROC is not a decision making forum, the scheduling of a particular readiness issue for the SROC brief facilitates movement in the decision making process of Service, Joint Service and Office of the Secretary of Defense leaders.

d. The JMRR process allows visibility of viewpoints of both operators and planners. At the end of the JMRR Process, operators have a sense of the relative importance of readiness degradations. The JMRR-SROC link allows the inclusion of the

possible political, budgetary and fiscal realities. In the end, both processes help military leadership prioritize the funding and execution of warfighting plans.

For OPNAV, the JMRR and SROC process has been invaluable in educating the other services and Office of the Secretary of Defense in the uniqueness of Navy readiness. Navy readiness terms, such as, Bathtub and Inter-Deployment Training Cycle are now common parlance in DOD.

General LYLES. a. The SROC brings the senior civilian and military leadership together in monthly meetings to review significant readiness topics. Its focus is primarily to provide advice to the Secretary on matters of broad policy related to readiness. This forum provides the Air Force and its sister Services the opportunity to communicate our key concerns to not only keep senior leadership informed but enables them to take appropriate corrective actions.

b. The SROC is one of several avenues to address both near-term and long-term readiness issues. Combined with the other forums that include the JMRR and Quarterly Report to Congress (QRR) the SROC continues to help place emphasis on those programs that has garnered significant gains for the Services over the past two years.

c. The SROC process has highlighted many of our top readiness concerns and contributed to addressing these concerns over the past few years. This has resulted in the following: reversed REDUX retirement plan, efforts to close the pay gap, increases to Depot Program Equipment Maintenance, increases to Readiness Spares Packages, and \$20B topline increase for the AF for FY00-05.

d. The JMRR and SROC have: highlighted declining unit readiness; assessed CINCs and Combat Support Agencies ability to integrate and synchronize units and equipment provided by the Services to meet day-to-day wartime requirements; and identified appropriate CINC deficiencies. We have seen a steady improvement in the number of deficiencies over the past 2 years which is an indicator that the JMRR and SROC process works.

General DAKE. a. In my opinion, the Senior Readiness Oversight Council has been a highly successful forum for vetting Marine Corps readiness issues.

b. From a Marine Corps perspective, the council provides visibility into and assessment of the Marine Corps' unique contribution to the National Military Strategy. The Council provides a forum to examine readiness issues and concerns that challenge the services and offers opportunities for attacking those challenges. Additionally, the council is a vehicle for the Joint Staff and the Office of the Secretary of Defense to hear and address Service concerns as they relate to joint or DOD initiatives, activities, and/or policies.

c. The Marine Corps has been able to bring attention to its top readiness concerns: recruiting and retaining personnel, the costs of maintaining legacy equipment, and the need to modernize both our equipment and infrastructure. For example during the September SROC, the Marine Corps addressed recent readiness challenges associated with our AV-8B Harrier community after the Harriers were grounded due to problems associated with engine production quality, lower readiness rates, and increased mishap rates. A get-well plan to restore the AV-8B community's operational health was briefed at the SROC. Subsequent, SROCs were used to provide updates to the plan as required. Additionally, the SROC affords the Services the opportunity to voice their concerns and express their opinions on the potential impacts of Defense legislation and Joint and/or DOD driven initiatives.

d. The JMRRs and SROCs effectively allow the Marine Corps to assess its readiness and contributions to joint warfare. In the latest JMRRs, our personnel readiness was satisfactory as we continued to meet recruiting goals and put a concerted effort into our retention efforts. Our ground and aviation equipment readiness remained high, but are a concern due to the age of this equipment and the rising costs associated with maintaining it. Aviation training readiness continued to be a challenge in some units due to maintenance requirements and aircrew shortages. Training readiness for ground units continued on track commensurate with unit deployment cycles. Our Maritime Prepositioning Squadrons continued to maintain a high level of equipment readiness as the squadrons rotated ships through the Blount Island facility for their regularly scheduled maintenance cycles.

DEPARTMENT OF DEFENSE (DOD) DEPENDENT SCHOOLS

Mr. BATEMAN. More often than we would like, we hear complaints from parents about DOD schools. But, the news is not all bad-recent news reports have touted the test scores coming out of DOD schools, particularly for minority children, as a success story. How does your service view DOD schools, both overseas and domestic?

General KEANE. We believe that the DOD school system delivers quality education to our soldiers' children in the United States and abroad, but there are areas that

can be improved. Across America, local school districts need to modernize facilities and upgrade their instructional technology systems. Likewise, this is also a challenge for the DOD schools that educate our children. The Army strongly encourages parental involvement in the schools, which helps to improve both the system and the results it produces. Some curriculum concerns voiced by parents relating to materials DOD introduced were successfully resolved through the school home partnership program.

Admiral PILLING. The Navy views the Department of Defense (DOD) schools as a key supporter of the installation mission by providing a high-quality education for the children of our active duty forces in a drug-free, safe environment. Thus, DOD schools are an important enhancer of family quality of life on the installation. According to standardized test scores, students in DOD schools are doing very well as compared with their counterparts in civilian United States school districts, especially in terms of minority achievement, and general satisfaction with many aspects of DOD schools, both overseas and domestic, is high, according to surveys. While there are always areas that need improvement, and individual problems at the local level that need to be resolved, DOD schools, both overseas and domestic, are more than adequately fulfilling their core mission.

General LYLES. There are 31,000 children enrolled in Air Force supported schools operated by DOD overseas and in the United States and its territories. Surveys indicate that concern for the education of their children is among the most important quality of life issues for our families. We continue to work very closely with our DOD school leadership to adequately resource and prioritize for the educational needs of our children. Significant program improvements have been achieved in the past year including full day kindergarten programs, reduced pupil-to-teacher ratios in grades 1-3, and additional manning for school counselors and psychologists. Our goal is a world class school system that can serve as a model of excellence.

General DAKE. The Marine Corps views both overseas and domestic DOD schools as supporting the installation mission by providing a quality education foundation for students in a drug free, crime free environment, thus enhancing family quality of life.

Mr. BATEMAN. Are your commanders able to work with school officials at the local level to resolve issues?

General KEANE. Yes. There is a great deal of cooperation between school officials and the Army installations they serve. The Army has individuals designated as a school liaison officers who work for local commanders. The liaisons are responsible for the day-to-day interface with the military communities and school personnel.

Admiral PILLING. In most cases, relationships between local schools and installation commanders are strong, but of course these relationships will naturally vary from one command to the next. Some of the formalized relationships between commanders and customers and the school include such things as local councils, school liaison officers acting as a day-to-day point of contact between school officials and base commanders, school advisory committees, school adoption programs and parent-teacher organizations. These contacts enable most issues to be resolved at the local level. In those cases where a local issue is reflective of a larger policy concern or legislative remedy, other forums such as the Dependents Education Council, which consists of senior representatives from the major commands, serve as avenues for problem resolution and input to the Department of Defense Education Activity.

General LYLES. Our parents and commanders are working with school officials at the community level to forge partnerships toward this end. We are particularly proud of the active role that parents are taking in supporting schools. Our commanders are focused on addressing dependent education issues with school administrators and staff. We will continue to make improvements in remaining goals including better school system response to parental concerns, facilities and maintenance, summer school programs, advanced placement course offerings, staffing of small schools, and distance learning opportunities. We appreciate the Congressional support for our dependent schools, which are an essential element of our ability to attract and retain good people.

General DAKE. In most cases, relationships between local schools and installation commanders are strong, whether they are DOD schools or are governed by a local education agency. For example, the Joint Venture in Education Forum brings the state of Hawaii and military officials together to resolve education issues affecting military children in the state run school system. Our current relationships with school officials enable resolution of most issues at the local level.

Mr. BATEMAN. Considering that military bases are in a partnership with local communities in places where there are no DOD schools, do you think local community schools receive enough impact aid money to provide a decent education for military children? Should DOD provide more funding to ensure that local schools are

properly compensated for teaching military children, particularly as housing privatization initiatives place more military children into local schools?

General KEANE. Most schools districts do not have enough money to meet all their needs. Impact aid is a Department of Education function and the Army would welcome funding increases.

Admiral FILLING. Since this program and its funding are administered by the Department of Education and given directly to local school districts, which may each have their own highly localized funding structures, it is difficult to assess whether each local community school is receiving enough Impact Aid money to provide a decent education for military children. However, it is true that the Impact Aid program, as a whole, has historically not been funded to its full entitlement and that impacted schooldistricts in a number of locations struggle to provide a decent education for not only military children, but for all children attending those schools. This struggle is often a result of the amount of Impact Aid funding a particular school district receives, but there may also be other factors unrelated to Impact Aid at play as well.

Impact Aid is provided not only to school districts impacted by military children, but also to school districts impacted by other federal presence, such as for children residing on Indian lands or in federal low-rent housing projects. Specific Department of Defense funding to ensure appropriate compensation of local schools for military family members would be unnecessary if the entire Impact Aid program was fully funded and all school districts impacted by a qualifying federal presence received their full entitlement to funds according to their reported student populations. However, the Department of Defense has a responsibility to take into account the impact of its policies and practices on local school districts and to take steps wherever possible to minimize their effects. For example, housing privatization initiatives can affect both the amount of Impact Aid funding support for the local school (where federal ownership of the land is retained by the federal government, Impact Aid funding support for local schools is maintained) and also the student population of the school district (as new housing units are built on land where previously units did not exist, student population within a district can increase).

General LYLES. We fully support the Impact Aid Program authorized by the Congress and administered by the Department of Education. We believe that this is the most appropriate way to compensate local communities which are impacted by the presence of military children and which may be disadvantaged in funding local schools from a normal tax base perspective. We have conducted no analysis of the adequacy of the current impact aid funding levels. We would have to defer to local and State education officials and the Department of Education for an accurate assessment including the potential impact that housing privatization may have. At this time, the only impact we foresee with housing privatization is to increase the number of houses in local communities that are subject to local taxation, which in turn should increase the local tax base.

General DAKE. The current funding for impact aid appears to be insufficient to offset the costs incurred by public schools impacted by Federal entities. For example, Oceanside Unified School District in California receives on the average \$1,040 per military child in impact aid, while spending \$5,670 to educate that child. Analysis of this nature, by locality could be useful for future decisions.

THE AGING CIVILIAN WORKFORCE

Mr. BATEMAN. *Aging workforce*: We continue to hear anecdotal stories about an aging workforce among DOD civilians. The concern is that the current "baby boomer" workforce will retire all at once, leaving serious gaps of hard to find skill among our civilian workforce. Have you been briefed on this issue, and does your service have plans to address it?

General KEANE. The Army is fully aware of this issue. In preparation for the expected losses, we are trying to increase our entry-level intake to professional, administrative, and technological occupations through the Army career intern program. The intern program is designed to prepare employees in these occupations for successful performance and advancement. In addition, we are now employing more aggressive and effective recruitment strategies. We are centrally funding a student career experience program for college juniors and seniors who may be noncompetitively placed in intern positions. To compete with private industry, we are offering recruitment bonuses for engineers, scientists, and computer specialists, as well as accelerated promotions for engineers, permanent change of station moves for all interns, and in some cases, advanced in-hire rates of pay. All of these initiatives will help us grow the leaders of tomorrow, accomplish the necessary transfer of institutional knowledge, and restore a more balanced age distribution to our workforce.

Admiral PILLING. As a result of years of downsizing, the Department of the Navy employs a workforce that is rapidly approaching retirement age. As the labor shortage intensifies, competition for qualified, dedicated employees is becoming even more challenging. The Department of the Navy is committed to improving our efforts and our results in attracting a workforce that reflects the diversity of our nation and meets our mission needs.

We are revitalizing our recruiting efforts to ensure that accurate and effective job information is readily available to a cadre of well-trained and experienced recruiters. This year, we are conducting recruiter conferences and training aimed at enhancing our recruitment efforts at colleges, universities, and career fairs. We have developed standardized guidelines and materials for use by recruiters, and are identifying opportunities for sharing resources and best practices. Our goal is to ensure the Department of the Navy is seen as an employer of choice by our current workforce and by high quality candidates for our future jobs.

We are also revitalizing our apprentice programs. During the past ten years, our apprentice programs slowed down to a trickle. More recently, the Navy has received additional funding earmarked for revitalization of the apprentice program.

Finally, we are working with the Center for Naval Analyses to assess the wellness of our civilian workforce to determine where we are now, and where we should be heading, to ensure we have the right people with the right skills in the right jobs to support the Department's many missions.

General LYLES. Yes, I have been briefed on this issue. The Air Force does have plans to address it. As a point of clarification, when we use the terminology "aging workforce," we do not mean chronological age. We have seen no research to lead us to conclude that age is a meaningful predictor of knowledge, skills, abilities, or performance.

Our workforce shaping concept centers on "the age" of the workforce in terms of experience mix and "the age" of the skills our employees possess. First, we are concerned with recruiting and retaining adequate numbers of quality personnel at all levels of experience to ensure we have a viable pool of candidates on-board and available for positions of higher responsibility as today's incumbents retire. This can be thought of as "succession planning." Second, we have historically relied on the lateral entry flexibility inherent in our semi-open civilian personnel system to fill any voids in experience we may observe. However, the demographics of the United States professional population as a whole lead us to believe we must begin to craft a "grow your own" policy for sustaining certain segments of our workforce. Our civilian system needs to evolve toward one which builds on the best practices of both the current civilian and military personnel systems. With that as a backdrop, we see an increasing reliance on workforce analysis and modeling as being critical to properly framing our policies and programs to meet our needs.

To provide commanders with a state-of-the-art, sustainable civilian workforce capable of meeting tomorrow's challenges, we have developed a workforce management strategy which includes the following solutions: managing our accessions with properly sized force renewal programs; pursuing legislative initiatives that would help us entice scientists and engineers from academia and industry to invigorate our research laboratories; expanding and targeting training and retraining; and pursuing legislative initiatives for separations management through the use of buyouts (incentives) for voluntary, targeted force shaping.

General DAKE. Yes, I've discussed this issue and the broader issue of civilian workforce development with the Commandant and his staff. In fact, the Commandant asked our senior civilian leadership to undertake a project to revitalize our career development program for civilians and take a more active role in charting civilian career paths, providing for skills and leadership development, and planning for succession. That project is well under way and I believe it will result in better opportunities for our civilian Marines as well as a more structured approach to the way we handle workforce planning.

CIVILIAN PERSONNEL REGIONALIZATION

Mr. BATEMAN. *Regionalization*: DOD and the military services are completing a civilian personnel regionalization initiative that takes about two thirds of local base civilian personnel offices and relocates some of the personnel and most of the support functions to these distant regions. We have heard some field commanders complain that service has worsened under this new system. What are your views on this program?

If you view service as poor under this new system, what should be done about the situation?

General KEANE. The regionalization initiative has caused some turmoil and changed the way we do business. However, we are now seeing improvements in the quality and timeliness of service. For example, job fill time is steadily improving. We are filling a record number of jobs using fewer personnel specialists. With the development of the Army Civilian Productivity System (CIVPRO), we now have the ability to accurately measure fill time. With CIVPRO, we are able to track, down to the installation level, the average number of calendar days it takes to fill positions—from the date a recruitment request is received in personnel, to the date a job offer is accepted. The classification program has also improved. The backlog has been eliminated and the classification process is now much more responsive.

The quality and timeliness of service is improving; however, we believe it is important to consider streamlining command and control of the entire civilian personnel process to further improve the delivery of services. In January 1999, a General Accounting Office study found that there are too many organizational and personnel layers between customer and service provider. The study also found that standardized processes and procedures necessary to achieve efficiencies are not being followed.

A recent Army study reported that splitting civilian personnel service responsibilities between two separate command elements is not efficient because the division of work generates differences in policy application and decreases service consistency. The study recommended streamlining command and control of regional and installation personnel centers and unifying installation personnel center command and control under the Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs). The Army is interested in exploring the concept of streamlining command and control of the civilian personnel process.

Admiral PILLING. The Department of the Navy's civilian human resources community is focused on fully implementing one of the most ambitious reorganizations of civilian human resources management in the past 30 years. Looking back, we have made tremendous progress in this effort. Looking forward, we still have significant room for improvement.

During the last year, performance standards for our Human Resources Service Centers were established by the Human Resources Service Delivery Board of Directors (BOD), which is comprised of Senior Executive Service and Flag officers representing our largest commands. When compared to the BOD metrics, we find that performance standards are consistently being met by six of our eight service centers. We are actively engaged in helping the remaining two centers to improve performance to the acceptable level. While any performance shortfall can be a problem for our field commanders, we are encouraged by the improved performance of the majority of our service centers, and expect to see continuous performance improvement in all of our centers in the immediate future.

Regionalization is working, but is not problem free. Some of our Human Resources Service Centers (HRSC) have experienced problems adjusting to the new organizational structure, new standardized procedures and the tremendous processing workload. We recognize these problems and are working hard to solve them.

The process of providing regionalized human resources service delivery was predicated on the availability of new technology (the Modern System) to be provided by the Department of Defense (DOD). Deployment of the Modern System has been delayed, and is now scheduled for completion during calendar year 2000. We are hopeful the Modern System will significantly improve the quality and timeliness of civilian human resources services to the Department of the Navy.

It has now been 4 years since we began the DOD-mandated regionalization of civilian Human Resources (HR) service delivery. We are accumulating data on performance at each of our service centers, and see some encouraging trends. To ensure that we continue to pursue the right path toward excellence in human resources service delivery, we have embarked on a functionality assessment, which will focus on HR functions across the Department. We expect to have this process completed by September 30, 2000.

REGIONALIZATION INITIATIVE

General LYLES. Regionalization of civilian personnel services is a November 1993 Program Decision Memorandum (PDM) directed effort to regionalize and consolidate civilian personnel processes in exchange for anticipated resultant manpower savings. A Program Budget Decision (PBD) required an increase in civilian personnel servicing ratios from 1:60 (one personnelist for each 60 employees) to 1:71, envisioned to be achieved by regionalizing service. Further, the servicing ratio is projected to go to 1:88 following modernization of the personnel information system.

In response to these requirements, workload transition and realignment of personnel resources to the Air Force Personnel Center began in August 1996. Regionalization efforts proceeded through January 1999 at which time approximately 48% of the Air Force civilian workforce was receiving service from the Air Force Personnel Center, and the Air Force achieved a servicing ratio of approximately 1:68. However, extensive and ongoing internal assessments, as well as customer feedback, indicated that levels of service previously provided had not been maintained.

In order to address customer service concerns, a hiatus from transitioning further workload to the Air Force Personnel Center was established in January 1999, and additional personnel resources were assigned to the center to accommodate the workload already in place. In addition, customer service functions involving face-to-face contact with managers and supervisors were returned to local civilian personnel offices with corresponding personnel resources. These measures resulted in demonstrable improvements in customer service and the center's timeliness metrics.

Many challenges remain in order to meet mandated servicing ratios while providing world class service in a centralized environment. We are establishing a team specifically dedicated to examining our civilian personnel policies and practices with a view toward reengineering them and taking full advantage of economies that can be gained through the use of technological advances and centralization. We also continue to review and evaluate the distribution of work and resources within the Air Force Personnel Center and between that organization and the local civilian personnel offices in order to arrive at an optimum operations structure. We are also optimizing our information management system and making personnel services available via the worldwide web. We believe that these efforts will help us meet our customer service obligations as we strive to achieve the DOD-directed servicing ratios.

General DAKE. The concept behind regionalization was based on the expectation that centralization of personnel processing and other "back room" personnel processes could be done with significantly fewer people and no degradation of service to the customer. Our experience under regionalization to date has not met that expectation. In fact, service in such critical areas as filling vacancies in a timely manner with quality people, paying our civilians properly and on time, and providing responsive counseling on benefits and retirement has worsened. In large part, this degradation in service is a function of reducing the civilian human resources professional workforce before we had the automated process enhancements in place to make the remaining staff more effective. The long awaited DOD Modern Defense Civilian Personnel Data System is still in the testing phase and has not yet proven capable of delivering everything we expect from it.

We need to take a fresh look at how we deliver civilian human resources services both at the regional level and local level. If we find, as I expect we will, some processes were centralized that should have remained at the local base or station, we need to correct that. Also, I believe we need to relook at the resource levels for this function. If our initial cuts were too deep, we should step up and provide the resource levels we need to make the process effective. Once we are confident the function is properly resourced, we need to set challenging measures of effectiveness and hold our civilian human resources professionals accountable for meeting them. The Department of Navy has already begun this review in the form of a functionality assessment of the civilian human resources process. I am hopeful it will give us the answers we need to give our commanders and civilian employees the quality service they deserve.

FUEL

Mr. BATEMAN. The fiscal year 2000 budget assumed significant savings in fuel costs. As we all know, those assumptions proved wrong and necessitated a \$1.2 billion increase to all of the O&M accounts for the coming year. Consequently, each of the services must not only pay higher costs but the new rates also include a charge to make up for the too low rate charged last year. What impact are these higher prices having on your operations and ability to continue to train and maintain readiness?

General KEANE. The increased fuel costs represent decreased buying power for units, especially those tactical units whose budgets are under continual pressure from other external forces such as military airlift costs, which must be reimbursed. Since training has priority, commanders must decide where to take the funds needed for the additional fuel costs. The ability to continue to train and maintain readiness will be achieved by taking risk in other areas.

FUEL, DOD AGENCIES, AND REVOLVING FUNDS

Admiral PILLING. When fuel (or any other working capital fund commodity or service) prices are set by OSD, the Services budgets are modified to reflect the changed requirements. That is, when fuel prices increase, our budget is increased to enable us to pay the higher price. Therefore, our training and other readiness operations are not affected by changes in fuel prices.

General LYLES. Rates for DLA spare parts are stabilized and will not change during year of execution. Should rising fuel prices put a financial strain on DLA, budget rates will be adjusted accordingly. Transportation (fuel) costs are a small portion of overhead expenses and therefore not a significant factor in overall spares pricing. TRANSCOM does not establish rates specifically for spares; each service's Working Capital Funds (such as the AF Materiel Support Division) pass a composite rate to TRANSCOM to be incorporated into overall Transportation Working Capital Fund (TWCF) rates. Although TRANSCOM's channel costs are higher due to increased FY01 fuel prices, FY01 TWCF rates are stabilized and the higher costs will be passed to the customer during budget year vice execution year.

General DAKE. Higher prices have had a dual impact. First they have forced us to look for efficiencies in operating and training. When that avenue is exhausted, we reduce training in the number of tasks that we might expect of a Marine rather than reducing the quality of training across the spectrum. Second, because our sister services are feeling the same pricing impacts in consolidated and co-located training environments, they often compensate by reducing support to tenant units, including Marines. This shifts the cost burden to the tenants, thereby reducing the amount of funds available for students to attend the school house.

EFFECT OF HIGHER FUEL COSTS

Mr. BATEMAN. Have the higher fuel prices affected other rates charged in revolving funds the same way, thereby compounding the effects on strained service budgets?

General KEANE. The depot maintenance and ordnance activity groups in the Army working capital fund projected the cost of fuel during fiscal year (FY) 2001 to be \$2 million more than when the rates were set in the Fiscal Year 2001 President's Budget. When the cost of fuel was increased in the budget, funds were added to the customer's budgets, so that the same amount of training and operations were funded at the revised price. Revolving fund rates were increased by equivalent amounts. The total Department of Defense budget was increased by the amount that fuel costs increased.

Admiral PILLING. Estimated Fiscal Year 2001 Navy Working Capital Fund fuel costs were projected to increase somewhat over fiscal year 2000 levels, most significantly in the Military Sealift Command activity group (approximately \$29M). Customers were provided additional funding in order to afford the increased rates.

General LYLES. Fundamentally, the revolving fund concept accomplishes what it was designed to do and provides the customer flexibility by absorbing gains/losses throughout the fiscal year. The working capital fund must break even, not necessarily annually, but over the long term by recovering losses through future price increases. Like any functioning system when assumptions do not materialize, you deal with the consequences. In this instance, the benefit of stabilized rates and enabling the customer to plan and budget more confidently, outweighs the time lag problem from stabilized rates to the year of execution.

General DAKE. No, not in the current fiscal year. The revolving fund both buys and sells fuel at the Defense Logistics Agency's (DLA) stabilized prices. This "stabilized rate" policy serves to protect appropriated fund customers from unforeseen cost changes such as the recent fuel price increases.

EFFECT OF HIGHER FUEL COSTS ON SPARE PARTS

Mr. BATEMAN. Have TRANSCOM and DLA rates for spare parts also risen as a result of fuel costs rising in the economy?

General KEANE. The Department of the Army does not have access to information to address this issue. The Department of Defense is in the best position to respond to this concern.

Admiral PILLING. To the best of our knowledge, the Department of the Navy is not aware of significant cost increases from the United States Transportation Command (TRANSCOM) or the Defense Logistics Agency that are specifically identifiable to rising fuel costs. While it seems plausible that a portion of their rate changes may be fuel driven, we do not have visibility of the individual cost factors which were used to build their overall rate change.

General DAKE. No, not in the current fiscal year. The revolving fund budget is based on sales and purchases at stabilized prices. This "stabilized rate" policy serves to protect appropriated fund customers from unforeseen cost changes such as the recent fuel price increases.

REVOLVING FUND SYSTEM

Mr. BATEMAN. While the revolving fund system stabilizes rates for the year of execution, does this system work well when assumptions do not pan out and you are in effect stuck for two large bills in the next year (having to pay this year's high rate and make up for last year's underpayment)?

General KEANE. Department of Defense revolving fund policies and procedures provide the services alternatives in offsetting execution year losses. The services can request to spread the required rate increase over two years to lessen potential program impacts. This gives the Services some flexibility in offsetting prior year losses. The system works well in that it protects customers from losing buying power in the year of execution. Further, through the budget process, the system facilitates fully funding the customers for budgeted rates.

Admiral PILLING. Stabilized rates play an important role in preserving approved Department of the Navy (DON) programs by insulating customers from the adverse effects of changes in costs during execution. Although there may be significant rate increases in the future to offset a combination of prior year losses and projected increases in future Defense Working Capital Fund costs, there is some benefit to the DON of having the lead-time to prioritize requirements and realign resources within the budget cycle. If fuel costs were allowed to fluctuate during execution, the sudden requirement to re-prioritize requirements and realign resources to fund higher fuel costs could have a serious, negative impact on DON program and mission performance.

General DAKE. Yes, the current Office of the Secretary of Defense (OSD) procedures for establishing prices/rates within the working capital fund business areas and for adjusting customer funding work well. OSD sets rates/prices at levels required to recover the cost of products or services provided by a working capital fund business area. Actual gains or losses realized are reflected in offsetting adjustments to stabilized rates in subsequent fiscal years. Additionally, during the budget review process, OSD adjusts customer's appropriated fund accounts to finance the fluctuations. Thus, the customer doesn't have to realign funding from other programs during the year of execution to cover unplanned cost increases. Nor does the customer normally have to absorb rate/price changes in subsequent years. OSD procedures ensure customers are adequately funded in the future to cover rate increases/decreases that result from the unplanned losses and gains.

Mr. BATEMAN. I was on one of the P-3Cs, land-based P-3Cs, that you make reference to in your written statement. On at least that one, and I don't know whether it is characteristic of all of them, the toilet in the plane doesn't function, and there is some work-around substitute for it, and some of the most enormously skilled and talented people you have fly on that plane for up to 12-hour flights during their mission, and some of them are women, and this is a preposterous result, and even if it ends up with a scandal of an 800 dollar toilet seat, something needs to be fixed. Would you look into that for me?

Admiral PILLING. Navy has recognized the need for upgrading toilet facilities on its P-3C aircraft. A 1994/95 study was conducted with the requirement that toilet facility options considered be compatible with both genders, private and secure, usable at all sites, and environmentally friendly. One option considered from this study resulted in an Engineering Change Proposal (ECP P-3-423) for installation of flushable toilets. This ECP was updated recently and the toilet has now been installed on Customs P-3 aircraft, although due to cost and length of installation time considerations, it has not been installed on P-3C aircraft. The study recommended options that were implemented in 1995 to modify the current P-3C toilet incorporating privacy and security upgrades. Navy is completing additional reviews of current Commercial Off the Shelf toilet facility options that may provide a more cost effective installation, meeting the requirements above but requiring a less complex and shorter duration installation than a true flushable toilet. Future modifications will be implemented to provide suitable facilities for our P-3C aircrews while balancing cost, satisfaction of flight safety requirements and complexity of installation considerations.

QUESTIONS SUBMITTED BY MRS. FOWLER

Mrs. FOWLER. Navy P-3s played a critical role in the Kosovo campaign, where they performed armed surveillance and reconnaissance, precision targeting, and strike missions. I recently received the Navy's brief on this and it was most impressive.

However, the P-3 program remains unsettled today. The Navy was recently compelled to negotiate a significant restructuring of a major P-3 maintenance and repair contract, the net result of which will be the early termination of the Sustained Readiness Program (SRP).

As I understand it, there are currently some 19 P-3 Update III aircraft that will *not* now undergo SRP after residing at the contractor's site for extended periods. These aircraft are in dire need of depot maintenance. Meanwhile, high OPTEMPO rates have placed a heavy burden on those P-3s that were not scheduled for SRP. According to my information, P-3 Commodores on both the East and West Coasts are wrestling with a severe shortage of flight worthy assets.

The CNO's FY01 Unfunded Requirements List includes funding for other important P-3 programs, including AIP, but it does not reference the need for additional O&M dollars for the P-3 community.

Does that reflect the Navy leadership's belief that the FY01 budget request adequately reflects depot maintenance requirements for the P-3, or is it just that the final decision on restructuring the SRP program did not occur until after the CNO's list was completed?

Admiral PILLING. The latter supposition is correct. The recommendation to discontinue SRP inductions after the 13 P-3s which were already in process was made in mid-January, 2000 and the stop work order was not issued until January 21. By this date, staffing for the CNO's FY01 Unfunded Requirements list was well underway. An agreement in principle between the Navy and Raytheon was reached in mid-February—past the February 16, 2000 date of the CNO's report. The official contract modification was ultimately signed on March 31, 2000.

FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—REAL PROPERTY MAINTENANCE AND INFRASTRUCTURE SUSTAINMENT FUNDING

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
MILITARY READINESS SUBCOMMITTEE,
Washington, DC, Wednesday, March 1, 2000.

The subcommittee met, pursuant to call, at 10:06 a.m., in room 2118, Rayburn House Office Building, Washington, DC, Hon. Herbert H. Bateman (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The subcommittee will please come to order. And I apologize to our witnesses and to all others that we are later getting underway than the schedule calls for. My colleagues have conferences hither there and yon and other, I am sure, vital business that would deter them from being where they are supposed to be at this hour. I hope they will be joining us in great numbers shortly.

I would like to welcome everyone here today to the Subcommittee on Military Readiness Hearing on Real Property Maintenance. This is a critical quality of life area with a funding backlog that continues to grow with no indication that funding in the future will improve. The committee understands that the Department of Defense (DOD) does not have a comprehensive strategy for managing its maintenance and repair needs. Each military service sets its own standards for maintaining its property using different methods to assess property conditions, prioritize repairs, and allocate funds. We are told that in some cases, bases and major commands within the services sometimes applied their own assessment criteria and do so inconsistently.

I must tell you that it baffles me as to how the military departments can determine their actual needs and make intelligent decisions about how much money needs to be budgeted without having a consistent policy. Due to systematic underfunding, it seems obvious to me that the backlog of repairs and maintenance can be expected to continue to grow in future years as has been the case in the past. The transfer of scarce funds from other readiness accounts will continue to be necessary.

As an example, records indicate that from fiscal years 1994 through 1999, the services moved \$7.1 billion from other accounts into real property maintenance and base operations over and above the amount requested and authorized by the Congress. Although

the amount varied between each service, Department of Defense records show that a portion of this money was moved from unit training funds, such as flight hours, tank miles, and steaming days. This, of course, has a direct impact on readiness. Now, I want to learn from our witnesses what we can expect in this area in the future.

For the past five years, Congress has been adding money to the defense budget, only to read in the press that it is pork that the military didn't ask for and doesn't want. I submit to you that had we not added over \$10 billion to the military readiness budget during the past several years, the state of readiness and backlog of real property maintenance would be much worse than it is.

We are very fortunate to have two panels of witnesses today who can help us understand the magnitude of the problems in real property maintenance management and some of the efforts, hopefully, that are ongoing to improve the situation. The first panel is made up of General Accounting Office representatives who are doing research in some of the areas associated with real property maintenance. I look forward to their testimony to help us understand the past funding of real property maintenance, especially the transfers that have been necessary in this area.

Our second panel is made up of representatives from the Department of Defense and the four services who work these problems on a regular basis. The panel can give us insight into the challenges they face and some idea about how we can all work toward improving the working and living conditions of our men and women in the military services. We look forward to their testimony.

The gentleman from Texas, Mr. Ortiz, and the Ranking Member of the subcommittee, is detained on some other business and will be joining us shortly. He has asked that I submit his written statement for the record.

[The prepared statement of Mr. Ortiz can be found in the Appendix on page 195.]

Now we will begin with our first panel of witnesses, which consists of the following General Accounting Office witnesses: Mr. Neal P. Curtin, Associate Director, and Ms. Brenda S. Farrell, Assistant Director, National Security Preparedness Issues, National Security and International Affairs Division of the General Accounting Office. Mr. Curtin, Ms. Farrell, we welcome you; and your written statements will be made a part of the record, and you may proceed in any way you see fit.

STATEMENT OF NEAL P. CURTIN, ASSOCIATE DIRECTOR, NATIONAL SECURITY PREPAREDNESS ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION; ACCOMPANIED BY BRENDA S. FARRELL, ASSISTANT DIRECTOR, NATIONAL SECURITY PREPAREDNESS ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION

Mr. CURTIN. Thank you, Mr. Chairman. As you mentioned, we have submitted our statements for the record and we, actually, submitted two statements, one that summarizes work that we just issued yesterday and a report on a movement of funds, and the other summarizes work we did last year on the overall issue of the DOD management of the real property maintenance. I thought

what I would do is take a few minutes this morning in my opening remarks to provide some background and perspective on those issues and kind of a brief overview of what General Accounting Office (GAO) has been saying about these issues over the recent past.

DOD and the military services are responsible for maintaining more real property than any other entity in the world. And some numbers that illustrate that, more than 320,000 buildings; those buildings contain about 2.1 billion square feet of space and include such diverse things as day care centers, barracks, aircraft hangars, utility generation plants, supply depots, and such unusual items as piers, and railroad lines; 1.1 million square yards of pavement for things like runways and parking areas; tens of thousands of miles of roads and bridges. All of those items have a plant replacement value, a total value, that is upwards of \$1/2 trillion; that is over \$500 billion.

Most of the funds to operate and maintain those facilities come out of the operation and maintenance accounts; specifically, through base operations and real property maintenance sub-activities. So maybe a couple of definitions there would be helpful. Real property maintenance funds are used to maintain and repair all those myriad facilities and structures. DOD and the services have been spending about \$5 billion annually out of this real property maintenance area.

Base operations, on the other hand, funds the services that provide the basic operation of the installations; things such as utilities, base communications, snow removal, security, and morale, welfare and recreation activities. And base operations funding runs in the range of \$12 to \$13 billion annually in recent years.

In a 1997 report, GAO talked a little bit about what has happened to the DOD facilities since the post-cold war drawdown. And what we said was that the reduction in forces and in spending in real dollars in DOD was reduced by 30 percent or so, been roughly a 30 percent reduction. But DOD facilities worldwide in terms of the numbers of installations have only been reduced by about 21 percent. And in fact, in terms of square feet of installations, the reduction has only been about 10 percent. But during that same time, the real property maintenance funding was reduced by about 40 percent, a much greater cut than the space reductions.

So this is part of what has led to the backlog in maintenance and repair projects that you refer to. In our work last year, we reported DOD's latest estimate of the backlog. It had grown from about \$8.9 billion in 1992 to \$14.6 billion in 1998. And I think it is safe to say that that backlog has continued to grow since then. Nothing has happened in the last year-and-a-half that would have reduced that backlog.

In that 1997 report, we recommended that DOD establish more consistent criteria and facility condition data, as you mentioned, use those tools to establish a better strategic approach to facility management and make sure that unneeded and obsolete facilities were being demolished to save operation and maintenance funds. At about the same time, and for several years, we included the defense infrastructure management area in our GAO high risk series among the government programs that we consider most vulnerable to fraud, risk, abuse, and mismanagement. In this case, the reason

for including it on the list is because of the excess capacity and the lack of an overall facilities management strategy. There really is a risk of losing the value of those facilities.

In September of last year, then we reported again on real property management and, again, we cited the inconsistencies that still existed in the policies and practices among the different services and, again, the lack of an overall DOD-wide strategy. In fact, we went so far as to say in that report—and I will quote from that—without an overall management strategy, the services real property maintenance is in disarray. We reported that the services were funding only a portion of the facilities maintenance requirements, thus allowing the backlog to continue to grow. And we made several recommendations aimed at improving the DOD-wide approach and strategy for real property maintenance. And we understand that DOD has taken recent action to implement some of those recommendations.

We have been briefed on some of what DOD is doing and, clearly, they have initiated some promising activities and approaches. And it is still a little early to make sure they are going to work; implementation is always the key. It is easier to start some of these initiatives than to complete them. But I do feel comfortable in saying that, you know, at this point, DOD has been responsive to our latest report.

Against that backdrop, the Fiscal Year 2000 Defense Authorization Act mandated GAO to study various aspects of real property maintenance and base operations funding. The overall concern that the conference report expressed is with the impact of all this on readiness. And specifically, we were asked to look at four things, and one of them is the movement of funds by the services into and out of the real property maintenance and base operation sub-activities after the initial Congressional action. Second, the impact of the movement of these funds on unit training and quality of life issues. Third, the backlog of maintenance and repair and the impact that it has on readiness. And finally, DOD's management structure and process for handling facility management.

The report issued yesterday focuses on just the first aspect of the act, dealing with the movement of funds. And I think we need to work with the committee and with the Senate side as well to decide what issues to pursue next and what priorities are going to be coming out of this hearing and any action this year.

Regarding the movement of funds, let me just quickly summarize the report we issued yesterday. During 1994 to 1999, the period we are asked to look at, the four services—and this is the active component only—moved about \$7.1 billion into base operations and real property maintenance over and above the \$88.6 billion that Congress originally designated for those areas. That is about an eight percent increase over that period. The largest movement of funds was in the early years of that period, with the Army and Air Force moving the largest amount and the largest percentage of funds. Almost three-quarters of the increase was for base operations, with the remainder going for real property maintenance.

While it is difficult in DOD's system—in fact, you really can't do it in DOD's system—to directly track where the money comes from and where the money goes in the operation and management

(O&M) accounts, we did want to try to get a handle on what was happening during this same period for unit training because the concern we had is that money was moving from training into these real property and base operations areas. And we found kind of a mixed situation there for unit training.

The Army was the only service that consistently had a net movement of funds out of unit training, and they had movement into base ops and real property maintenance. From 1997 to 1999, for example, the Army obligated about \$1.1 billion, or about 12 percent less for unit training than Congressionally designated. The Air Force moved funds out of training in the early years of our study, 1994 to 1995, but they actually moved greater amounts into training in the last four years. And the Navy and Marines consistently moved funds into unit training, about eight percent above the Congressional designations. So the picture there is not clear in all the services.

DOD has considerable discretion to move funds among these sub-activities; and in many cases, Congress is notified of these movements. And some degree of flexibility is important, I think, in letting the services adjust to changes that occur during the year. At the same time, though, it is important that good, consistent judgments are being made to assure that funds are going to the most important activities and the most needed areas. And this is where the overall policy and strategy needs to come into play. That is where it is important, if you have that baseline, then you have better assurance that the money is moving in the right directions.

A couple of comments to conclude here on readiness and the implications of the movement of these funds for readiness. I want to reemphasize that we have not drawn any conclusions at this point about the effect of this movement of funds on readiness. Moving funds into base ops and real property maintenance by itself doesn't automatically mean that readiness is being degraded by that movement for a few reasons. Most of the funds that we saw moving went into the operating forces budget activity, which is the main, most closely associated with readiness, the main activity. And a lot of those funds would go for things like repair of runways, or repair of maintenance facilities, that could have a direct positive impact on readiness and may be very good decisions.

Other funding could improve the quality of life or morale welfare and recreation activities that would have an indirect, but still, could have a positive impact on morale and readiness. Even the movement of funds out of training doesn't always imply a degrading of readiness, although it is a concern, certainly. Training efficiencies during the year may have reduced the need for funds, or some training may have been cancelled, freeing up funds for other priorities. Those are the kinds of details that we would really need some extensive study to get a good handle on, and that is one of the things we need to talk about for future work.

Let me stop there, and I hope that overview has been useful, and I would certainly be glad to take any questions.

[The prepared statement of Mr. Curtin can be found in the Appendix on page 198.]

Mr. BATEMAN. Thank you, Mr. Curtin. As is apparent, we are now joined by our distinguished Ranking Member, Mr. Ortiz,

whose statement has been made a part of the record. But if you have any comments you would like to make, they are welcome at this time.

STATEMENT OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. ORTIZ. No. I just want to take this opportunity to welcome the witnesses this morning, and I am sorry I was late. I had a prior meeting, but I am happy that you are here. And I hope to learn something from you, and I know that we will. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz. Ms. Farrell, do you have any comments that you would like to offer before we begin questions?

Ms. FARRELL. I will be happy to take any questions on our report that was issued just yesterday and build upon what you would like to address.

Mr. BATEMAN. Very good. Well, let me try the generic approach to the problem we are wrestling with. It is apparent to me from what you have said, that we just can't sit here and point fingers, and say you moved lots of money from here to there without knowing the policy and the rationale that underlie why you moved the money from here to there.

But it also occurs to me that if there is no Department of Defense-wide standard or criteria by which each of the services is held accountable for managing the maintenance of its real property, we are losing a very important management tool and coming to grips with how much is vital and how much is essential to see by some measurable, general criteria or standard of looking after our public assets that are held by the Department of Defense.

It also occurs to me that we perhaps need some inventory of Department of Defense assets, real property assets which have reached a point where it may be a lot more efficient to provide the funding to demolish them than it is to continue to maintain them. And we ought to be, perhaps, developing an inventory of such facilities in order that we can see that we appropriately fund it in order that we can achieve over time the savings that can be put into doing other things that are more important.

The bothersome thing about this is I am hearing you, Mr. Curtin, say that in some instances we have taken money from training and put it into real property maintenance. In other instances, I am hearing you say that we have done the reverse. And I don't know whether to be mad at somebody for doing one or mad at somebody for doing two; but don't we need some way that we can get a handle on where the money is moving and why it is moving that way if the Congress really is going to play in the orthodox traditional role in the formulation of a defense budget, which under the Constitution, it is our essential responsibility to do?

Mr. CURTIN. Yes. The best tool right now to get any kind of handle on this, and we tried to use it in the work we did this year, are the high priority readiness reports that the committee has required DOD to provide. But they are anecdotal for the most part, and they don't always talk about the impact on readiness. They

will tell you which account money moved from and which account it moved into, but it is hard to get a good feel that that was a good judgment, that yes, it moved from an area that the need was less into an area where the need was greater.

And that is the best thing that is out there right now, but it is still inadequate to really do what you are saying, to really be comfortable that the Department is being a good steward of these funds and a good steward of the properties.

Brenda, I don't know if you have—

Ms. FARRELL. I agree. The value of the priority readiness reports was evident in the report that we issued a couple of days ago on the movement of all O&M funds, where we identified the 43—

Mr. BATEMAN. Pull the microphone closer, please.

Ms. FARRELL. Yes, sir. Can you hear me now, Mr. Chairman?

Mr. BATEMAN. Yes.

Ms. FARRELL. I was saying that I agree with the value of the high priority readiness reports, and those reports have been most helpful. And the other report that we issued earlier this week, looking at the total movement of O&M funds, where we identified \$43 billion that had been moved between the period of fiscal year 1998—it was 1994 through 1998. Those are for selected activities. Those are areas that Congress has designated to be of high priority readiness. Those reports should continue, but DOD could be encouraged to maybe elaborate on the detailed explanations for the reasons for those movements.

Mr. CURTIN. And again, if the Department and the services had a better overall strategy and some overall consistency in the way they do things, you could feel more comfortable about the movement of these funds. But right now, I don't have that comfort level at all.

Mr. BATEMAN. Is it realistic for the committee to, in the Defense Authorization Bill, to include a provision directing the nature and type of some new reporting so that the Department of Defense, all the services, and the committee could have a better handle on the policy decisions about movement of funds?

Mr. CURTIN. I am reluctant, I think, to recommend more reporting from DOD. I think Ms. Farrell's idea of making the current high priority readiness report more useful would probably be a good way to go. And again, I think you made a very good point earlier about the data. And we have said that in all the work that we have done, that DOD just doesn't have a good handle on what its facilities inventory is and the condition of that. That is the starting point. Until you have that, it is hard to be comfortable that the funds are moving to the right place, no matter what reporting we do, I guess.

Mr. BATEMAN. I hate to use the onerous term, reporting, because we get more reports now than we can read. But I am interested in data, and strike the word report—

Mr. CURTIN. I understand.

Mr. BATEMAN.—and say, do we need to require in some uniform methodology data from the Department of Defense and each of the services in order that they, as well as we, can look at it to measure the extent to which there is a problem and how to best get a solution to the problem?

Mr. CURTIN. That may be something to look at, Mr. Chairman. I don't have a good comfort level right now to exactly what the best data would be for you to get, but we can look at that. I mean—

Mr. BATEMAN. I am going to ask you if you would look at it and give me the benefit of your thinking on it. I have not sat here and listened this morning, and all of a sudden, had a blinding flash of rationality that tells me I know exactly how to fix this problem; but the Secretary and all of the services, I think we all have got to be looking at a better way that we can look at a set of data and be able to come to better management decisions. And so I am earnestly soliciting your help in doing that. Mr. Ortiz.

Mr. ORTIZ. Since Mr. Sisisky has been here waiting longer than I have, I will yield to Mr. Sisisky.

Mr. BATEMAN. That is sure generous of the ranking member, and I am pleased to—

Mr. SISISKY. And I appreciate he didn't mention age either so that makes me feel a little better today. Isn't the problem money? Money is the problem. Every time we have a contingency, something comes down from the Pentagon, cut the base ops 20 percent or 30 percent. Isn't that really the problem?

Mr. CURTIN. The services tend to put the money into operating tempo (OPTEMPO). You are right. And whatever is leftover tends to go to—

Mr. SISISKY. And then we don't know when they have a supplemental, whether it goes back in, and I am willing to bet it doesn't. We have been cutting base ops for so long it is just beyond belief, you know. How do you get data on it, you know—you can't. I think that is the real problem. And you know, we can fence the money. We do it in military construction. If we appropriate money, authorize money, for military construction, that is what it is used for. And I don't think even in the contingencies they can take out of that fund. And maybe that is what we have to do.

I mean, sometimes we have a problem and we look for difficult answers to it, but it may be simple answers to it. But that doesn't solve the problem as I see it now, because we are so far behind, and getting behind, in real property maintenance that it is beyond belief. It will never catch up. I mean, you know, that is why I said, money, everything is money. As a matter of fact, the Chairman mentioned about destroying buildings. We did have a fund for that. I know in a shipyard that I represent, man, we are tearing down buildings as fast as we can get them—amazing amounts of money being saved. You don't heat them, you don't have to repair them, you know, all of these things. That is the way to do it, but fence the money. If we can find a way to fence the money in there, that they can't put their hands on it—I don't know how the gentlemen in uniform can even manage what they do to be very honest with you, not knowing what is going to happen.

Let me ask you another question. I also notice a trend to privatize public works in areas. Has that had any effect? Did you take a look at that to see about the maintenance?

Mr. CURTIN. I haven't tried to make that connection, no.

Mr. SISISKY. I may ask the military people whether they have seen anything on that.

Mr. CURTIN. They may have better information on that.

Mr. SISISKY. Because you know, when you have to let a contractor fix the sewerage, you may say, let it go. We don't have the money there. But if you have got the people there in public works, they may fix it, you know. I am just thinking out loud. But no matter what you do, and no matter what criteria, and no matter what strategy is taking place, you still have got to have the money to do it, and it has to be consistent. And some of these bases are just reeling from the problems of base ops and other things, because 20 percent cut, on a 20 percent cut, on a 20 percent cut, and it just goes on and on.

Mr. CURTIN. The only caution I would make, the only comment on that—and I agree, ultimately, you have got to have money to make this work—but we would sure like to see a better handle on just what facilities we have, and the condition they are in, and something more consistent across services, so that money is going to the right places. If you want to provide additional money, that is fine, but make sure it goes to repair the facilities that need it the most. And I am not sure right now DOD could know that because of the lack of this—

Mr. SISISKY. Well, it isn't just a lack of that, a lack of accounting system that would—I mean, let us be honest, you know. I hate to say it out loud, but—

Mr. CURTIN. So there is a lot of data problems in DOD.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Sisisky. And now, Ms. Fowler.

Mrs. FOWLER. Thank you, Mr. Chairman. And thank you, Mr. Curtin, for being here. This is an interesting report, and I share the concerns that have been expressed already by the Chairman and Mr. Sisisky, because we go around to these bases, and we see the facilities and the problems, and money that is not getting spent where it needs to be, and it is our young peoples' quality of life that suffers so often. And then we wonder why we are losing them in the process.

And I noticed in going through your survey, that you surveyed about 517 bases and major commands, and pointed out that the major commands only requested funding for about 20 percent of their known real property maintenance needs in fiscal year 1997, and they were funded at an even lower rate. Did you determine why these major commands were requesting so little of their required funding? Is that same practice still going on today as far as the requests we are getting from the major commands? And is this indicating that maybe the backlog is even greater than what they are showing us on paper?

Mr. CURTIN. I think—on the first part of your question, I think the major commands have put their emphasis on OPTEMPO, and the traditionally funded tank miles, and airplane hours, and steaming hours, and those get the funding that the services compute that are needed; and they work from there. And probably, the lowest priority for funds becomes the real property maintenance and the base operations. They feel they can squeeze those, defer as much as possible, and then fund the OPTEMPO. And I don't see that changing anytime in the future if it is left to the services.

In terms of the backlog, this backlog of maintenance and repairs is an interesting area and; clearly, the numbers have been growing.

But again, what I am afraid of is that a lot of the facilities in that backlog are things that, as Mr. Sisisky said, really should be torn down. And we have been carrying them on the books and we have been spending operations and maintenance money on them. And we can't get a good handle. It is another area where the services are inconsistent as to how they define that backlog and what is a critical backlog versus deferrable types of backlog. They have several different categories that the services use. And no one that I know of has been able to state with any comfort level that that number is any good.

Now, we talked about the 15 billion backlog. That is DOD's number. I would definitely call that an unaudited number. GAO has never had a chance to get a good look at that number, but as you say, the accounting systems, in general, are problematic. So I don't have much confidence in that number.

Mrs. FOWLER. This is what is so distressing, because at a time when all of us on this subcommittee and on this committee, really, are trying to get more dollars into our defense budget, because there are critical things we need, when time and again, things like this are shown where the Defense Department is not using good accounting practices, you can't find an audit trail, where the money is going. You can't document what the needs are. It makes it very difficult for those of us who are proponents of trying to get more funding into defense to defend that. And we somehow—any suggestions you can give us, because I know that is what the Chairman is looking for, how to hold the Pentagon's feet to the fire.

And we keep being told this year after year, oh, we are putting these good practices in, we are changing this system. And it still isn't being done. I looked at this list of some of the current promising practices that they are trying to do but, yet, not all of the military services have implemented these; and they have got a long way to go. So I think what we are looking for is what can we do to hold their feet to the fire. We set these accounts, we put the money in, they move it anyway.

As I said, we get these reports. Reports don't mean a hill of beans, because they are still going to move it where they want to move, use it how they want to use it, find ways around it. Anytime you do a law, there is always a loophole to it. And so it is very frustrating to us and frustrating to the people we deal with on a daily basis out on these bases that are struggling to keep them up. And we say, well, we have sent this amount of money. Well, they sure aren't seeing it.

So any suggestions I think we can get from GAO on how to better get a handle on this, and how to get this Defense Department to be more accountable and more receptive to the need to do that, because we can't just keep putting the money in when it can't be accounted for. We want to put it in, but we want to get it—you know, we have got to show just like any business in this country, that it is being spent wisely, and accounted for, and auditable, and we know where it is going. So thank you for what GAO is doing, and we just appreciate any further advice and assistance you can give us on this. Thank you.

Mr. CURTIN. Thank you.

Mr. BATEMAN. Thank you, Ms. Fowler. Before I recognize Mr. Ortiz, let me try to get something clarified. As I recall what is in your statement and your testimony is that this is not a phenomena, that all the money that gets moved around gets moved from tank miles, steaming hours, flying hours, to real property maintenance and base operations support. Sometimes that happens, there are some where that has occurred. But more often than not, it is the reverse, where real property maintenance funds go into augmenting operational accounts and doing operational requirements.

Mr. CURTIN. Well, it is interesting the way I think it is working, as best we can piece it together, is I think in the budget process and the budget buildup, real property maintenance and base ops, are getting a fairly low priority and the OPTEMPO, and tank miles, and things are getting the priority. But what we saw in terms of movement during the course of the year is that most of the movement, the net movement—there are ins and outs during the year—but the net movement is into—is back into base ops and Real Property Maintenance (RPM), because it was the lowest priority and was underfunded to begin with.

And, in fact, you see kind of a pattern where early in the year money seems to be pulled out of base ops and RPM and used for training events or special things that come up that need funding. And then toward the end of the year the money moves back as the services found out they couldn't execute their full training program, or contingency money came available during the course of the year. Money moves back into these RPM and base maintenance accounts, and that makes it a harder management problem for the installations and for the commands as well, because they are never quite sure through the course of the year how much they can count on.

And a lot of their funding tends to come at the end of the year, a lot of the increase in funding is towards the end of the year and they have to make some quick decisions on what facilities will get the priority. So it is a difficult management task. I mean, you talk about the frustration of the installation commanders, there really has to be a high level of frustration. And we feel that as auditors, we want to get our hands on some hard numbers. But certainly the installation people feel it the worst.

Mr. BATEMAN. Well, I am sure they do, and their frustration is even more important than my frustration. But I certainly have a lot of frustration, because I know that during the period that I have chaired the subcommittee, we start in the authorization process that we are responsible for primarily, with we are going to fund what is said to be necessary for every steaming day, for every tank mile, for every flying hour that is necessary for training purposes. That has been just an article of faith in the way we approach putting together the authorization bill. And yet, that doesn't necessarily mean that is what happens to it at the end of the day.

Mr. CURTIN. No.

Mr. BATEMAN. Okay. I am sorry to be taking—

Mr. CURTIN. On that point, they don't pick on the Army so much, but the Army, in our data at least, seemed to be the service with the most movement out of unit training for whatever reason; and we would like to get behind that a little bit.

Mr. BATEMAN. It might be something like Bosnia and Kosovo.

Mr. CURTIN. Well, that would do it, yes. That gets your attention.

Mr. BATEMAN. Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman. Now, my question would be what benefits do you think would result from the presence of the DOD-wide strategy for addressing the RPM crisis?

Mr. CURTIN. Well, I think because the funds are so limited—and maybe we can find a way to get more money into that—but with the limited money, we have got to be sure that money is going to the facilities, and the installations, and the specific activities within that installation that are the highest priority based on a lot of factors. I mean, based on how important they are to the mission and, you know, what kind of condition they are in.

Without some kind of coherent plan across the department, you may—see, what we see is buildings being classified one way in the Army and completely differently in the Navy. And we look at them, and most experts look at them, they say they are about the same condition. So where do you put your money? And until you can come up with something more consistent, you don't have a good handle on where you should spend that next dollar to have the best impact on our facilities across the board.

Mr. ORTIZ. You know, and maybe this should be a question for the next panel, is there a central depository where the different agencies, the services, report as to the building in each command that should be destroyed or have no useful purposes? And like Mr. Sisisky just stated, where we can save money by demolishing those. Do we know what we have around the different military bases?

Mr. CURTIN. Well, I think the next panel can talk about that in more detail, but as it turns out, that is one area in which DOD, I think, has gotten its act together a little better, based partly—maybe I can give some credit to GAO here—our 1997 report put a lot of emphasis on that, and I think as a result of that, there is a special fund now and plan. DOD has a pretty good handle on what they want to demolish, the numbers of buildings, the number of square feet. I think they are fairly well into that program now and they have got a target date. I mean, that is one of the places where they have tried to get a better handle on it and they are a little farther along. I feel a little better about that area now.

Mr. ORTIZ. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz.

Mr. Hansen.

Mr. HANSEN. Thank you, Mr. Chairman. I really don't have any questions for the GAO, but I do have some questions for the next panel. My problem is that I have to go a resource meeting in a couple minutes. So I would ask that I could submit these written questions to the Army and the Air Force, which I feel very strongly about. Would that be—

Mr. BATEMAN. That certainly would be in order. And I understand the unfortunate conflicts that we have. But yes, any questions you may have can be submitted for the record.

Mr. HANSEN. Thank you.

Mr. BATEMAN. Let me mention before we bring forth the next panel that I have been furnished with figures from the unfunded priorities list from each of the military services for real property maintenance for fiscal year 2001. For the Army, this says \$250 mil-

lion; for the Navy, \$136.6 million; for the Marine Corp, \$49 million; and for the Air Force, \$437 million; which totals \$873.3 million.

That figure, as large as it is, is woefully less than what I had been told is the outstanding backlog of real property maintenance. Is this, at least in part, because one of the Vice Chiefs of Staff of one of the services said to me almost with an approving tone, gee, this year's budget funds 69 percent of our real property maintenance requirements.

Can we have confidence that these figures do, indeed, represent the only unfunded priorities of each of the services for real property management? I don't know whether the GAO panel has any response to that, but it is sort of forewarning the next panel that we would like to hear from you.

Mr. CURTIN. It may also be a rhetorical question, Mr. Chairman. I don't know how it could represent all the needs.

Mr. BATEMAN. Does anyone else have a question? Mr. Smith, any questions of this panel? All right. If not, then thank you very much for your testimony and for your important work that you have done for GAO and, especially, for this committee.

Mr. CURTIN. Thank you. I look forward to continuing to work with you.

Mr. BATEMAN. Our next panel of witnesses consists of Mr. Randall A. Yim, Deputy Under Secretary of Defense for Installations; Major General Robert L. Van Antwerp, Jr., Deputy Chief of Staff for Installations and Housing for the United States Army; Rear Admiral Louis M. Smith, Commander, Naval Facilities Engineering Command and Chief of Navy Civil Engineers; Major General Ernest O. Robbins, II, The Civil Engineer of the United States Air Force; and Major General Harold Mashburn, Jr., Assistant Deputy Chief of Staff, Installations and Logistics for the United States Marine Corps.

Secretary Yim, we would be pleased to hear from you. Your full statement will be made a part of the record, and you can proceed in such manner as you choose.

**STATEMENT OF HON. RANDALL A. YIM, DEPUTY UNDER
SECRETARY OF DEFENSE FOR INSTALLATIONS**

Secretary YIM. Thank you very much, Mr. Chairman. Good morning, Mr. Chairman, Mr. Ortiz, distinguished members of this committee. I want to thank you for the strong support of the military program, to provide it, and the strong support for the people that are defending our country, both military and civilian. I also want to, particularly, thank you and my colleagues at GAO for your recognition of the important role that installations and infrastructure plays in maintaining readiness, and of the interrelationship between the many components of readiness and installation.

Military installations, in our view, are the foundation for a strong national defense and the platforms from which our forces successfully execute their very diverse missions. We are aware we maintain and deploy weapon systems, and where we train and mobilize for combat; in short, we are the foundation for the projection of power whenever and wherever needed. But installations are also where our military and civilian people live and work and where they become key members of the communities. And real property

maintenance is absolutely the key for us in maintaining that foundation. We have to maintain the facilities that they support, not undermine or compromise our missions or quality of life.

In short, I am really just saying what you already recognized, that there is a crucial relationship between readiness, and training, and missions, and weapon systems, and the quality of life, and the condition of our facilities, and that we have to recognize these relationships and take the appropriate steps to maintain and improve the condition of our facilities. And we are, frankly, talking a bit more than money. But please don't take my comments wrong, money always helps. Our great task is to become more cost efficient as well as enhance the performance of our facilities to support the military missions.

So not only must we maintain proper funding levels for our facilities, but we have an obligation to spend that money more wisely and as efficiently as possible. We are continually faced with the stark reality of having to balance facility funding needs with other priorities, such as weapons, recapitalization, and modernization, research and development, and quality of life, and other requirements. So we have to not only make the best use of the funding we do receive as a result of this difficult balancing process, but we need to find ways to cut our costs and save money that can be used to support our other major programs as well as installations.

And when I talk about cutting cost, I am not talking about blindly cutting cost or blindly closing facilities. I believe that when we are talking about cutting costs, it is inextricably tied to finding better ways of doing our business, because these process improvements are really the key, I think, to the long-term savings that we hope to achieve. And finding, however, these process improvements involve change, and this change can be very difficult for us. But there it is also a time, as my colleagues in the military will indicate, of great change in the military. Our services are really substantially reshaping their force structure and operational constructs to meet the challenges that they are facing now of asymmetric threats, of home land defense, of specific targets against non-traditional areas like our computer information management systems.

And so, too, must the installations match up, reshape, to support these mission requirements. We have to be as adaptable and multifaceted as the military is going to—we have to adopt better business practices, we have to become interoperable as the military is trying to be with our allies. So we cannot afford, both on a monetary sense and in a mission sense, to be physically isolated either technologically or physically from the communities in which we operate. For example, by creating proprietary systems of installation management that are incompatible with the rest of the world or commercial off-the-shelf applications.

We need to recognize this and then take steps to assure that installations are viewed as integral parts of the new weapon systems that we are fielding and the training missions that we require. We can't afford to field these new leap ahead technology weapon systems but lack the installations or platforms to support them. We cannot ask our people to perform these complex new missions without the facilities to house and train them, and this is precisely the

reason why you will see all of us here in installations playing an important role in the upcoming Quadrennial Defense Review (QDR) process. We must prepare ourselves to have an important role in the QDR in May 2001 when it will come out. And as importantly, we have to have the proper analytic tools available to us to be able to intelligently participate in the Quadrennial Defense Review.

So one of the things I am talking about is just as we seek leap-ahead technology for weapons platforms, we have to find leap-ahead training and knowledge management techniques for our installation commanders. But to meet these cost efficiency and performance enhancement goals that we have set, we have to spend some of our money and intellectual capital on devising new and interactive ways to learn about these very complex installation management issues that we face, such as utility and housing privatization, such as energy deregulation, outsourcing. And I think that we have pioneered in the military these wargaming scenarios. Perhaps there is something like that, that we can also pioneer and just disseminate into complex installation management techniques out to the field, on the field commander to rely upon.

Now, we are really committed to reshaping the installation infrastructure through several related initiatives, and I am going to briefly touch on a few of them. They include the privatization of our housing and utility systems. We need to manage our energy much, much better. We spent \$2.2 billion on energy commodities alone. There is a lot of money to be made there. We need to outlease some of our underutilized facilities, not dispose of them, but perhaps make better dual use of them. We need to competitively source, rely on the private sector, frankly, for a lot of our noninherently government functions. And we have to improve the standards of a lot of our critical facilities like barracks and dormitories. And of course, we do need additional rounds of base closure. The Department must be able to pursue all of these initiatives, because they really complement each other, and no single one replaced the other one.

Let me talk briefly about Base Realignment and Closure (BRAC). The argument that we are making for BRAC I think is relatively straightforward. We are simply wasting money on maintaining facilities and bases, excess capacity that we neither use now or have a need of for the future. And while we can debate the magnitude of the cost savings, there is little doubt that we have achieved savings during the first four rounds of BRAC. Our estimates of about \$14.5 billion by 2001, and about \$5.7 billion every year thereafter, were actually called reasonable and credible by the CBO and the GAO.

But I want to emphasize that when we talk about BRAC, we are talking much more than just a comptroller-driven drill here. We need the authority to really realign and reshape our installation structure to meet the rapidly changing force structure in mission requirements envisioned by the Army, for example, in vision 2010, or the Air Force in the aerospace expeditionary force concept.

The 1997 QDR talked about the need for two more rounds of base closures. Our December 1999 mobilization report that we submitted to Congress said that we had not closed assets that we

could not reconstitute or really made some—we did not make fundamentally unsound decisions in the four prior BRAC's.

And most importantly, what we are talking about, if we are proposing BRAC rounds in 2003 and 2005, we can then take advantage of installation's role in the 2001 Quadrennial Defense Review to really have a plan on how the installations need to match up with the changing force structures and act accordingly. We are on the path for demolition. We have set targets by 1993, to demolish over 80 million square feet. We are more than half-way on that path, and we are actually under budget right now on the cost of demolition. That is probably not going to maintain, because we are kind of picking off the easy stuff to demolish, and it is going to increase a little bit; but we are going to meet that 80 million square feet. And as Congressman Sisisky and others have mentioned, it is going to be a big benefit for us. We just don't need to maintain that stuff.

We do have to also stretch our RPM dollars by adopting these best possible business practices, and we have to tap the best brains, not only in the private sector but also within our very strong public employees. And so we have to really make a strategic decision, who is in the best position to supply us with basic goods and services, not only now but into the future. And we believe that privatization or competitive sourcing, the competition aspect is not only the best way to do that but also the fairest way to do that. That is why we are aggressively seeking privatization of our utility distribution systems combined with effort toward better energy management and getting better deals in the energy commodity market, particularly with so much deregulation going on throughout the country.

That is why we are pursuing housing privatization, relying on experts in the private sector to help us meet a really critical family housing shortage. We have over 200,000 inadequate family housing units. We just wouldn't be able to fix that within a reasonable period of time using just MILCON. We need to leverage against the private capital. We are getting about an eight-to-one leverage effect, which means we can improve our family housing condition about eight times as fast as if we were just relying upon traditional MILCON. I know we have some examples in Texas in Congressman Ortiz's area.

Let me spend a few minutes—just a minute on housing. Secretary of Defense Cohen prioritized housing as one of his two top priorities, improving family housing as one of his two top priorities this year, along with reforming our healthcare system. He has proposed a three-part program, increased reliance on housing privatization, a robust MILCON, where housing privatization doesn't work, and a substantial increase in the basic allowance for housing.

Now, the Basic Allowance for Housing (BAH), the basic allowance for housing rate, will allow more people to immediately have better quality housing options off-base, because they can afford to live off-base. It also, because that is the principal economic driver for housing privatization, it will stimulate more and better—not only more, but better housing privatization projects. And hopefully, it will take the pressure off of our on-base housing requirements

where we maintain old, or outdated, or cost-ineffective facilities, because we have to meet the housing need.

We are also seeking legislation to make better use of our underutilized properties by enhancing leasing. We are talking about trying to really give an incentive at the installation level. Part of our problem, I think, as GAO correctly points out, is that a lot of our money for installations gets shifted around. We need that flexibility, we really do. But if we can have enhanced leasing opportunities where we make dual use of facilities, then we can keep that money, be it in kind contributions or real money at the installation commander level, without having it go up the chain and then come back to us. Because frankly, it doesn't come back to us in the same shape that it went up the chain. That would be a big plus forward for our installation commanders. And those programs are described in much more detail in my statement.

Now all of this sounds kind of good, but I want to hit one other point that is squarely on your criticism, sir, and the GAO criticisms. We can't really do all this stuff, and we can't effectively participate in the QDR. We can't advocate for our positions unless we have—we significantly improve our analytical tools. To effectively go where we need to go, we have to know where we are. And I accept, I agree with, your criticisms, GAO criticisms, that the Department has lacked, the services have lacked, comprehensive data not only on what we have, but what we need; and we have migration of funds. There is no question that those are the facts.

Here are some of the things that we are trying to do to address these problems. As the first panel indicated, the GAO issued a report last September on real property management needs improvement, or in disarray, I think was one of their conclusions. The Senate Armed Services Committee (SASC) conducted a hearing in October—excuse me. Both before and after the hearing, I, personally, with my staff, met with GAO. We went over their report. After the hearing, we went over the report. We went and visited the sites identified in the reports this last winter to get firsthand knowledge of those tools. I had the pleasure of meeting with Mr. Curtin yesterday to discuss his report. Some of the things we are going to do, we have committed to follow-up exercise with him. But more than that, just kind of talking with people, we are trying to develop some really basic analytic tools here.

We need to first, as you point out, Mr. Chairman, accurately inventory what we have. The models that we are creating to validate our requirements fundamentally depend upon—this is the concept of garbage in, garbage out—you have to know what you are sticking into the models before it can spit out accurate data for us. So we are really trying to improve the integrity of our real property inventory now. The services have all submitted preliminary data to us. We are screening it and scrubbing it. We hope to have a much, much better handle on exactly what we have within the next coming months because, simply, it is true; the services do report the data slightly differently. So we are hoping to get some consistency in that.

Second, we are devoting a lot of our effort to improving the RPM requirements determination process to better justify RPM funding in our constrained fiscal environment. We are the advocates for in-

stallations here. If we cannot really lay on the table true requirements with the level of precision that can guide site specific decisions, either in the MILCON or the RPM budgets, then we are just not effective advocates.

We cannot defend the programs when we go up against the wrong comptrollers or other programmers and compete for the limited budget resources. And this has really been one of our most persistent problems, a lack of sufficient RPM funding caused, in part, by our own inability to know exactly what we need, compounded by an inability to effectively compare requirements across the services. So this is what we are trying to do, and we know this is not an overnight fix, and this has been an endemic problem for the Department of Defense and the services.

We are trying to lay the foundation to really correct this problem. First, we are making extensive use of an Installation Policy Board which I chair along with the senior leaders here of the services, not only on the civilian side, the uniform, and perhaps more importantly, we have brought the senior service engineers and then representatives from the financing and program community. I am very pleased with this board. We meet every single month. We are treating this board as the Board of Directors for Installations within the Department of Defense. It is augmented by outside planning and fiscal policy experts. We are allowing this board then to do peer review and auditing of the installation requirements, trying to get some consistency and standards across the services, and then serve as an effective forum where we can't solve it at our level, frame the issue, elevate it up to the senior levels as much as possible. Every single month we are meeting. I am dragging these poor gentlemen to these meetings every month, but I think we have been very effective about that.

Second, we are developing—or the board is supervising the maturation and the development of three very important analytical tools for us. First is a facility strategic plan. We knew that we had to give some thought if we were ever going to justify to Congress, which has very legitimate concerns about our request for BRAC. We had to have a strategic plan about how the installations would fit and match up with the force structure. We have some discussions about that now. There has been talk about what type of information do we need, what types of facilities we need to maintain. We are going to have the fruits of our labor be fed into the QDR discussions that are being built up now for May 2001, and we hope to then really have a strategic aspect of the QDR for facility planning.

Next, we are really supervising in the board the development of a facility sustainment model using auditable—I think some of you used that term—auditable data input that will properly model and identify the funds that will keep our facilities in good working order. This is really going to enhance our ability to make estimates of what we really need and then defend us better in the budget process. And it is based on validated commercially bench marked maintenance costs for each type of facility and then, of course, an accurate inventory of our property.

We have already developed a cost factor handbook that I would like to introduce for the record, sir, based on private sector tech-

niques for real property maintenance and construction. We are in the final validation of our real property inventories. We hope to have this facility sustainment model on line for fiscal year 2002 budget programming and preparation. That means late spring, early summer, actually have the model up and running.

[The information referred to is retained in the committee files and can be viewed upon request.]

We really like this. This is, for example, use the building—a variety of outside factors like the Building Owners Management Association, a nationally recognized organization that provides data on maintenance and repair costs. We have used a lot of commercially bench-marked factors to get a handle on what we should be spending on maintenance and repair. For example, outside sources use maybe 2 to 4 percent of the plant value for maintenance and repair for RPM. We have a goal of around 2 percent, but we are not really close to that. We are probably somewhere around 1–1.5 percent. It is hard to really even estimate what we are spending because we use several different sources.

And finally, we are overseeing an installation readiness reporting system for the first time. And your committee was really the impetus for this. The installation component is going to be included as part of the overall operational readiness reporting being submitted by the services and DOD, roughly, the spring of this year. So we are developing, rolling up the various services different ways of reporting the status of readiness of installations. The Army has perhaps the most developed model on that. We are getting some consistency, and you will see that from us in the spring.

And let me conclude now. I know I am running over. Let me conclude with the words, if I could, of Will Rogers. He said that even if you are on the right track, you are going to get run over if you stand still. And I believe that we are on the right track. We have a lot of work to do, though. And I think that this subcommittee and GAO has really been a catalyst for us. We are trying not to stay still, but we are trying to move with some speed and innovation.

One of the innovations, again, if I can give a commercial, is the leap ahead training management techniques for our installation commanders and our field leaders. We asked these guys to be full-fledged city managers in very, very complex areas with half-day training and two-day training entering—get us a better deal on the energy deregulation market. People are studying this for years as they go up against the energy power managers.

And I think we need to have this leap ahead knowledge management, knowledge training tools, such as the wargaming interactive stuff that I have talked about, and I think it is a function that, I am no longer 20 years old, but I can't imagine some of the potential that some of the computer based gaming technology could lead for us. But we would like to see some devotion of thought to really leap ahead management techniques so we can disseminate to the field. And then I think that would be a big benefit for us.

So again, thank you for your continued support of our program, sir.

[The prepared statement of Secretary Yim can be found in the Appendix on page 205.]

Mr. BATEMAN. Thank you very much, Secretary Yim. I want to tell you I am very impressed with your testimony. What you have said is a source of considerable comfort to me and, I am sure, the other members of the subcommittee. It would appear to be that you are getting about doing the kind of things that we hoped someone was going to be doing in order to develop the management and analytical tools that are going to be helpful to all of us in getting our hands around this very difficult problem of real property maintenance and base operations support funding, and making sure that those were taken care of, and not taken care of at the expense of training and other programs or vice versa. What you have said is, indeed, very encouraging.

Let me now ask General Van Antwerp if he would address the committee.

STATEMENT OF MAJ. GEN. ROBERT L. VAN ANTWERP, JR., ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT, U.S. ARMY

General VAN ANTWERP. Thank you, Mr. Chairman, members of the committee. It is just great to be here with you. This is a subject that is near and dear to everyone on this panel's heart. I would like first just to say about Mr. Yim—we kind of chuckled when he said about the meetings he gathers us for—this team has been forged by Mr. Yim this year far beyond our expectations. There is a great trading of ideas, there is some very innovative things we are doing to try and get a handle on this, and I just give him the credit; not to make his head feel bigger, but he is just doing an outstanding job with all of us, and we in the Army surely appreciate that.

There is no question in our minds that facilities' condition is a component of readiness in the Army. And as has been said three of the last five years, the Army migrated money into the RPM account. And it is a recognition of many factors, Kosovo and other factors, but it shows you the sense of the commanders out there in the field. I want to thank you for the Congressional adds that we have had and the quality of life enhancement funds that have been very crucial to us and help us in that. But as Mr. Sisisky says, it is dollars to a great extent. There is only so much you can do on the initiative realm before it comes down to dollars.

Of course, I am sure you are all aware of the Army's new vision to transform itself. A lot of that vision will impact our installations as we try and project our power quicker. It means we have to look at our airfields and those power projection things. We also have to look at how we are training our force, our new force. Some of the things we see there will be the need for if we change equipment, and as we transform equipment, will be for the equipment shops. The other part of that is probably for more urban type training, mount training. So we are very much looking at the effect of the transformation on our facilities.

The Army has a comprehensive strategy. It involves the active, the Reserve, and the Guard, and it is one—we all have the same standards. So when you get a report from our installation status report that says the facilities in the Guard is rated at C-3, that is on the very same standard as the facilities in the active force.

From our viewpoint, the Army has about 166,000 facilities. The average age of those facilities is 44 years old. There is two factors that really impact: one is the number of facilities that you have to maintain, and the other factor is the condition and age kind of lumped in there. As all the services are doing, we have a very good program for demolition. The Army feels right now, based on our installation status report we have 28 percent excess infrastructure. And we have a program, we have about 150 million square feet.

Back in 1992, there was identified in our status report that we needed to demolish, that we don't need to maintain and be putting money into keeping them up. To-date, we have demolished 68 million square feet. We will take another 10 million down, roughly, in 2001, with what is in the 2001 budget, so we are getting there. When the installations tell you they could use a lot more—Fort Hood, if you could give them another 10 million today, they would use it; Fort Bragg, another 10 million today. They can't get this down fast enough.

The second part, I will just tell you that we are funding RPM at 69 percent this year, and it is woefully inadequate. We did make a change from last year with about the same level of funding in RPM as last year. We dropped ten percentage points, roughly, in how we are satisfying the requirement. That is because we understand the requirement much clearer now, and we made—we bit the bullet and said we are going to make a change and accurately reflect, based on standards, what is the backlog. If that backlog had current funding, we hope to be—and hope isn't a strategy—but that we plan to be by 2005 at 80 percent at the current funding, at 69 percent in 2001. But that is still woefully low, because 100 percent keeps it just like it is.

Our unfunded requirement of \$250 million that you addressed, that will get us—if it is sustained, it will get us to the 90 percent mark by 2005, if it is \$250 million addition every year. That still doesn't get at the big backlog. We have over a \$15 billion backlog in quality. But it will get us so we are sustaining close to that level of 100 percent. You combine that with a military construction program that is renovating, remodeling and upgrading facilities; that and the 90 percent RPM will get us to a good position.

I just want to conclude by saying that it has to be a balanced strategy, I think, between RPM and MILCON. And that strategy has really two pieces: it has the sustainment piece and it has the modernization piece. And our challenge is to balance those. What we have done up to this point is go after a very focused program. We have gone after permanent party barracks for quality of life of our soldiers, a readiness issue. We have gone after strategic mobility in order to upgrade so that we can project our forces from our power projection platforms.

We do have a future strategy that is in my written statement. We would be glad to talk further if there are any questions. And sir, that concludes my statement. And again, it is great to be with you here today.

[The prepared statement of General Van Antwerp can be found in the Appendix on page 221.]

Mr. BATEMAN. Thank you very much, General. And now, Admiral Smith.

**STATEMENT OF REAR ADM. LOUIS M. SMITH, COMMANDER,
NAVAL FACILITIES ENGINEERING COMMAND, U.S. NAVY**

Admiral SMITH. Good morning, Mr. Chairman, members of the committee. I am Rear Admiral Lou Smith, the Commander of the Naval Facilities Engineering Command, and it is a pleasure to be here before the committee this morning. I would request, sir, that my written statement be included for the record.

Mr. BATEMAN. It will be included.

Admiral SMITH. Thank you, sir. I do appreciate this opportunity to be here this morning to talk about real property maintenance, and I thank you for your ongoing support for this program within the Navy. I talk a lot in my written testimony about our efforts to overcome the challenges of maintaining our aging infrastructure within the limited resources we have. We, in addition to get more dollars into the program, are trying to reduce the size of requirement. We do this through our ongoing efforts for regionalization and consolidation to eliminate redundancies we have and consolidate where we can.

We, too, have a very aggressive demolition program. It is a program that was beefed up in fiscal year 1996. The results are seen around the Navy. We have demolished almost 7 million square feet already. We hope to get to 10 by 2002. It looks like now we will demolish another 5.5 million by 2002. And I would add for Mr. Siskin that the added serendipity we have had there is that people are saying how pretty our bases look now that we have torn down a lot of these—yes, sir. It is amazing. We are also pursuing privatization in areas. Mr. Yim mentioned utilities; we are looking at that. We are looking hard at a lot of other areas, such as housing, that aren't necessarily inherently governmental, that we could get from the private sector and, again, reduce our facilities requirement.

Our RPM funding this year is good news for us. If you look at it, it is an increase from last year. Last year, our asset protection index, what was mentioned before our percentage of funding to our plant value, was at 1.6 percent; this year, it is at 1.8 percent. We are getting closer to that industry threshold of 2.0 percent. This allows us to do some, what we call tailored funding, where we will fund our mission critical infrastructure, such as quality of life, piers, runways, utilities, and training facilities to a C-2 rating condition. This will also help us to significantly slow the growth of the backlog of maintenance and repair in our other facilities.

Ideally, I would hope to strive for C-2 readiness in all of our facility categories to avoid continuing deterioration, but the truth is we are a long way away from being there. With our fixed top line, our RPM program continues to be a balancing account that is needed by our warfighters to support higher priority readiness programs and emergent requirements. Accordingly, we work very closely with Mr. Yim and his staff, as well as the other services, to develop tools that better clarify the impact of these RPM reductions.

In fiscal year 1999, our number of mission categories reporting C-3 or C-4 facilities condition increased for the first time in five years. Mr. Chairman, I would tell you it is imperative we need to reverse this trend. Deep down, the Navy does believe that the

measure of our readiness is closely linked with the quality of our shore facilities. Quality facilities improve the quality of life for our people, reduce our cost of ownership, and as always, impact our ability to train and retain our sailors.

This concludes my opening statement, sir. I would be more than pleased to answer any questions you or the rest of the committee may have.

[The prepared statement of Admiral Smith can be found in the Appendix on page 228.]

Mr. BATEMAN. Thank you, Admiral Smith. And now, we look forward to hearing from General Robbins.

STATEMENT OF MAJ. GEN. EARNEST O. ROBBINS, II, THE CIVIL ENGINEER, U.S. AIR FORCE

General ROBBINS. Good morning, Mr. Chairman, members of the committee. I appreciate the opportunity to address the Air Force's real property maintenance requirements with you this morning. With your permission, I also will submit my full testimony for the record.

As you know, we manage our facilities in infrastructure through two major programs, as was previously pointed out. First, the real property maintenance, or RPM account, provides funds to maintain the Air Force infrastructure already in place. Second, the military construction appropriation allows the Air Force to replace antiquated facilities and to bed down new weapons systems. And although the focus of today's hearing is obviously on the RPM account, success in both of these areas must be complimentary to allow us to provide the quality facilities we need to support our missions and our people.

While there are clearly several areas where we have achieved notable successes as a result of excellent Congressional support, continued constraints in RPM and MILCON are beginning to show in degraded facilities and supporting infrastructure, as you have determined during your visits.

In fiscal year 2001, RPM in the Air Force is funded at what we in the Air Force call the preventive maintenance level, or PML. And this will allow us to accomplish only the day-to-day maintenance required to sustain real property facilities and infrastructure. It does not provide the resources necessary to accomplish much of the needed maintenance and repair. And although the Air Force continues to operate, we are increasingly required to develop work-arounds which impact Air Force combat capability and operational efficiencies. Examples include deteriorated airfield pavements, which require longer aircraft taxi times, reduced munitions storage capability due to degraded storage igloos, and increased foreign object damage risk to aircraft engines.

The Air Force's current level of RPM funding defers most non-PML maintenance and repair, resulting in a current backlog of some \$4.3 billion. Now, we have developed an RPM metric, which we call the Facility Investment Metric, or the FIM, to identify requirements above and beyond those day-to-day maintenance requirements I have mentioned. The FIM stratifies facility requirements based not on facility condition, but on mission impact, and allows us to identify and track our most critical needs.

We mentioned the inventory earlier. The active Air Force has about 108,000 buildings; of those, about 58,000 are 40 years old or older, and so we obviously face a challenge in the day-to-day maintenance and repair that we encounter in the field. On the demolition front, since 1996, the Air Force has demolished some 1,700 buildings. And as Dr. Yim indicated, we are on the right glide slope to meet the DOD guidance to complete the demolition program.

The scenario I have laid out for you, if we project it out to continue until fiscal year 2003 when the RPM program funding finally begins to increase within the Air Force budget, funding is currently projected to grow from one percent of the plant replacement value, which it is in the 2001 budget, to just over 1.4 percent by fiscal year 2005. This means our backlog will not disappear overnight and Air Force operations and readiness will continue to show increasingly adverse effects. Until then, the Air Force must limit RPM funding to the preventive maintenance level so that we can fund higher priority programs within our current total obligation authority.

There is good news regarding facilities. The Air Force has benefited over the past four years from Congressional adds to the RPM account for quality of life enhancements. This effort has allowed the Air Force to greatly improve conditions in our dormitories and other traditional quality of life facilities. And we deeply appreciate your support in this high visibility and high impact area.

We obviously still have a lot of work to do. The Air Force currently has over \$200 million worth of validated unfunded dormitory requirements. There also exists nearly \$400 million of other validated unfunded quality of life requirements, such as child development centers, community centers, fitness centers, youth centers, and so on. Your support for quality of life enhancements will continue to have a positive effect on our airmen in the field.

It is our responsibility to provide policy makers and decision makers with informed assessments of requirements along with our best engineering judgments regarding impacts on readiness and quality of life. We continue to capitalize on the limited resources at our disposal, and just as importantly, on the ingenuity and dedication of our officers, enlisted personnel, civilians, and contractors to operate and maintain our bases to the best of our ability.

However, tough choices still lie ahead for the Air Force. As General Ryan stated during his recent testimony before this committee, the Air Force has identified a priority list that includes items related to personnel, readiness, modernization, and a very large need to support our infrastructure.

In conclusion, Mr. Chairman, I want to thank the committee again for its strong support of Air Force programs and the benefits they provided the Air Force in terms of readiness, retention, recruiting, and the quality performance of our people. I would be happy to address any questions.

[The prepared statement of General Robbins can be found in the Appendix on page 235.]

Mr. BATEMAN. Thank you, General Robbins. And now, we look forward to hearing from General Mashburn.

STATEMENT OF MAJ. GEN. HAROLD MASHBURN, JR., DIRECTOR OF FACILITIES AND SERVICES DIVISION, OFFICE OF THE DEPUTY CHIEF OF STAFF FOR INSTALLATIONS AND LOGISTICS, U.S. MARINE CORPS

General MASHBURN. Thank you, Mr. Chairman, members of the committee. I certainly concur with all the comments my colleagues have made, and I really appreciate the opportunity to address Marine Corps concerns for real property maintenance. I think from the discussions we have had today, we understand what an onerous task this is as far as management.

You have heard General Jones, our Commandant, say that we have four pillars of readiness: Marines and their families, our legacy systems, infrastructure, modernization; all of that coming from the bottom line and the top line—very difficult to really look at those. However, looking at real property maintenance, it goes across all pillars, even looking at maintaining our legacy equipment, our old equipment, it actually does.

Is it true that we have deferred maintenance to help fund new timeliness? Certainly, it is, but we have done it during the budget process, knowingly doing it because of essentials, not the other way around. I can remember last August when all the monies came in that perhaps were not being able to be executed. We went out for a call to the field, what programs can you execute, installations, by 30 September—\$66 million worth. They were executable because they were ready, and we were able to execute \$29 million in a very short period of time—just fantastic work by the field.

And actually, if you look at the history over the past several years, we have been able to execute more in real property maintenance than was actually anticipated at the beginning of the fiscal year. We have several goals: the unfriendly priority list of \$49 million was mentioned. That is required to reach one of our goals, which is to reduce the backlog of maintenance repair to \$106 million by 2010. That is a goal, and that is why it is on deficiency.

Another goal is the recapitalization rate. Presently, our recapitalization rate, while industry's is at 50 years, is well over 100 years. Our goal is modest, 70 years. Real property maintenance funding request for 2001, we have requested an increase of \$50 million; and it is a substantial increase, but it funds 90 percent requirement. Last year, we were able to reduce our backlog in maintenance repair with the programming request for 2001. We are looking at a \$20 million reduction in backlog maintenance repair; again, looking at sustained funding increases of perhaps \$49 million a year to reach that 2010 goal.

Funding is the key. Is it adequate? It is adequate to maintain old facilities with sometimes band-aid approaches? We must sustain increases to reach our goal through 2010. We must combine it, as my colleagues have said, with strong demolition plans and a very strong military construction plan.

We are working together with Mr. Yim and the other services, of course, to really look at how we can orchestrate, first, the inventory upon which to base our requirements, and then to really be able to establish our goals for the end state. As a major concern, when we talk about the four pillars of readiness, again, mainte-

nance real property transcends all pillars. It is critical because it is quality of life.

We talk about quality of life. Sometimes we think about family care centers, family service centers, commissaries, PX's. Quality of life to Marines means something else: all about good roads, runways that don't have foreign object damage to the aircraft, basic infrastructure requirements. That is quality of life; quality of life that brings back our Marines alive.

Again, thank you very much, Mr. Chairman, for your support. I look forward to answering any questions.

[The prepared statement of General Mashburn can be found in the Appendix on page 244.]

Mr. BATEMAN. Thank you very much, General Mashburn, and all of the witnesses who are part of this panel. Secretary Yim, I want to repeat again how pleased I am to get the indications from you that there is a very concerted, and I sense, a well-conceived effort to get your hands around the managerial and analysis problem that underlies so much of what we have been talking about today. I want to commend you for that and for all of the members of the military team who flank you for their understanding of the wisdom and necessity of doing that.

I want to return to the matter of BRAC and base closures. And I don't mean this in a vagaritive kind of way, but I think the perspective—or perception here on the Hill is that we would be into that process before now except for some loss of confidence in whether or not the last process in some manner, at least, allegedly, is perceived to having been politicized. Leaving that aside, I have no doubt but what we have more facilities than the downsized armed services require, and that we need critical analysis and decision making as to what to keep and what to arrange and rearrange.

But you are talking in terms of two BRAC rounds. Explain to me, if you would, why you say two instead of one well-conceived and properly executed round.

Secretary YIM. What we are estimating is about a 23 percent excess infrastructure, and the thinking is that that is too big of a bite to take in one round itself. That is quite a bit of excess infrastructure to take down. What has happened in the prior BRAC rounds, particularly, in 1993 and 1995, is the experience has shown that from the 1993 round, and you could make additional adjustments and tweaks in the subsequent follow-up round in 1995. And that is what we are envisioning, a 2003 round and a 2005 round, again, to make those tweaks and adjustments.

It is—and frankly, if you ask us, well, would you take one round? Yes, we would definitely take one round, and we would try to do the very best job we could in that one round. Our analysis is that given the amount of the infrastructure that we believe needs to be taken down and shifted around—because it is not just closure, it is realignment, the two would benefit us more.

Mr. BATEMAN. I am sure you are aware that the base closure process is a very, very turbulent and traumatic kind of phenomena for hundreds of communities throughout America. It is nonetheless going to be something that at a point in time we must do. I just have some hesitation as to whether we need to put them through

it twice as opposed to doing it comprehensively and doing it soundly once. I want to have you express your views as to why the dual round instead of a single round.

Secretary YIM. One of the things we are doing also, Mr. Chairman, is to try to mitigate the impact of it. And with the help of Congress last year, we were able to—and Congressman Ortiz and Congressman Rodriguez—enact legislation to allow us to transfer the assets of our closing military bases to the communities at no cost for job generation purposes. And that, I think, has gone a long way to mitigating the impact or economic dislocation and trauma that the communities go through. But there is still no question that this is a traumatic process, just like any of our downsizing efforts, and we understand your point very well, sir.

Mr. BATEMAN. Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman. I appreciate you all being with us today and the fine work that you have done under the circumstances. And I know that money happens to be the problem, of which we don't have enough. But I am going to be asking some questions for all of the services. And my first question would be the question that I asked the prior panel, what benefits do you think will result from the presence of a DOD-wide strategy for addressing, you know, the RPM crisis, and how do you assess your service infrastructure recapitalization program? And then, what are your long-range plans for breaking the cycle of increasing the RPM backlog? And maybe you can give us a little input as to what we can expect.

Mr. BATEMAN. If you would suspend for a moment—Mr. Ortiz, I find myself in the situation where I made an improvident commitment to be somewhere at 11:45. So I am going, with the utmost confidence, proposing you of the responsibility for presiding over the hearing at the point where I have to leave, which is going to be in about two minutes.

Mr. ORTIZ. That is fine, and I will not let Mr. Sisisky call for a vote.

Mr. BATEMAN. Well, I might even be willing to go along with that.

Secretary YIM. Thank you very much. Yes, we are trying to get some degree of consistency, but the biggest problem we have is—and it has been suggested that we have a floor, for example—is that I believe that we really do need the programming flexibility. We do see a lot of money being spent on training in the first part of the year, and then a lot of money coming in to RPM at the end of the year, as General Mashburn has indicated. That is actually good for us, because the only people that really can execute at the end of the year when money falls out is really the installation guys. So we really are benefiting from that type of budgeting system.

The problem we face is that people are accused of having soft requirements within our own systems, our own comptrollers. The RPM needs, you don't know what you need, you don't really know what you have. How can you really say that this \$10 million is really going to improve readiness? It is very difficult for us to create algorithms or connections between a specific mission readiness and a specific dollar devotion to a particular facility. So people accuse us of having soft requirements.

That is why it was very important for us to have this cooperative effort to get to a facility sustainment model that had commercial bench marks. So what I believe, where we are headed, is we are not going to get a floor unless it is mandated. That is not what the services nor the Department is requesting. However, what we need to do is increase the visibility of the decisions, either to fund or not to fund, and that is what we are attempting to do in the facility sustainment model so we can say to our programmers, okay, we know that you need this \$50 million, but this \$50 million would have done this, and the consequences of not giving us that \$50 million this year and only giving us 20 is this. And we hope to get to that level of granularity in our model.

Mr. ORTIZ [presiding]. Any of the services who would like to respond to my question?

General VAN ANTWERP. Yes, sir. I would like to just say I think the facility sustainment model that Mr. Yim is working with the services; we have had the installation status report for several years—it is pretty mature at this point, and it is somewhat akin to that and will fold into that. I think the key to that is the standards that you have so you know exactly what the condition is, and what this facility sustainment model and the installation status report does, it actually—you go out and you look at a facility. You have a checklist, and when you are done, you know whether that—you know the sustainment costs and you know the modernization costs of that facility. So that is the first part.

And then it gets into how do you break this chain that you alluded to. I think it is a combination of getting rid of, as we have already discussed, what we don't need anymore, so we are not pouring valuable dollars into that. And then the second part, you have to get this funding up to a level that while you are trying to sustain, it is not deteriorating at a greater rate. We are on a downslope right now because of chronic underfunding. And so we have to get it up to a level that allows us to—no fooling, not let the stuff we have go down further.

You combine that with a good program of military construction and modernization, and you take some of those C-4, what we would call a C-4, not mission capable facility, and you either tear it down or build a new one, or you really go in and modernize it. I think that is how you break it. We know the cost of that in the Army, to break that in RPM is about \$500 million a year. Frankly, if we are going to do that over the next several years to sustain it, that very high level will break this trend that we are in right now.

Mr. ORTIZ. Admiral.

Admiral SMITH. Sir, I would offer that I really would check into everything that has been said so far. Within the Navy, I think, it is just a few simple words. The first is to focus what we have. We are spending money on operational facilities, quality of life facilities, training facilities, things that we know we are going to have and we are going to keep. We are going to get rid of things we don't need anymore, whether that is by demolition, or by outsourcing, or by privatization. We are going to consolidate where we can. And I would be remiss if I talked—and we are going to coordinate that, obviously, with our MILCON program to recapitalize our plant

ashore. But I would be remiss if I didn't also mention that we are going to have—if we are going to have the discipline internally to break this cycle of poverty, we are going to need to educate our people. And it is not just our base commanders. It is also the people who live and work in these facilities as well as the people who fund those, our good friends in the comptroller business in Washington about not just a metric, but also, what this does and what the payback is for us.

Our former Commanding Officer (CO), Admiral Boorda, used to say, quality of life is the last thing that happened to you today, and we are very sensitive to the fact that if you can live in a wonderful brand new one-plus-one barracks but, yet, at your workplace, the roof leaks, you have got an old typewriter instead of a word processor, that is not going to be an incentive for you to stay around in the Navy whether you are a civil servant or an active duty military member. So it is a multi-faceted approach, but I think we are on top of it and we are making enormous progress.

Mr. ORTIZ. Thank you. Mr. Robbins.

General ROBBINS. Yes, sir. I would only add on the facility sustainment model, I think the beauty of it, and its utility to us as engineers, will be that because it is based on and bench marked against industry standards, commercial standards, as opposed to something that perhaps was just dreamed up, if that is the right term, internal in the Department of Defense—will allow us to better articulate and justify our requirements within the various corporate structures of our services, the Air Force Council, in my case, where we won't be just talking what civil engineers think we need, but Mr. Yim will have delivered to us a model that we can point to and say this is the way the rest of the world, commercial airports, universities, other government agencies, state governments, et cetera, approach this very nagging problem that we have. So I think that is the primary benefit that we see from developing a new model that we can all abide by across the uniformed services.

Mr. ORTIZ. Thank you very much. General.

General MASHBURN. Yes, sir. The only thing I could add is we must maintain the flexibility that is provided by not fencing real property maintenance money. For instance, I mentioned the four pillars of readiness, our legacy systems, very old equipment. During the course of a year, what happens if our vehicles' transmissions have a severe breakdown throughout the fleet—not under warranty—very difficult to handle unless there is something unfenced. If you have to weigh repairing the Amphibious Assault Vehicle's (AAV's) versus repairing an old building, I think the commandant is right in making a decision as far as warfighting. So I just request that we be allowed to maintain the flexibility of managing the program with added emphasis on reporting properly.

Mr. ORTIZ. Thank you very much. I now will yield to my good friend, Mr. Sisisky, for any questions that he must have.

Mr. SISISKY. Thank you. You don't want a fence then. Is that what you are saying? You want the flexibility to move that money around. Is that what you just said?

General MASHBURN. Yes, sir.

Mr. SISISKY. And you think that is the proper way to do it?

General MASHBURN. I do, sir, with better management tools.

Mr. SISISKY. Thank all of you for being here today. Mr. Yim, I have never had the pleasure of seeing you before. As these gentlemen will testify, I was a pretty outspoken member of the Military Construction Committee, but they wouldn't let me serve on it this year.

I would just get back for a minute to BRAC, and I know what the Chairman's—we have talked about it many times, the fear of two BRAC's. And the fear is not over two BRAC's, the fear is messing it up. For instance, in 1993, they closed the Naval Aviation Depot (NADEP) in Norfolk; that is the Air Rework facility. They closed it, basically, because the captain who was commanding the place took a gamble on 600 employees—this is a true story—that they were going to get enough business, when he should have RIF'd or laid them off, but he didn't do it, and he readily admitted it. So the cost went up and they took that picture right at that time and they closed it. Two years later, they sent it to Jacksonville. Two years later, they closed Jacksonville, Cecil Field, and sent all the airplanes to Norfolk. Now, they repair the airplanes in Jacksonville, and all of them were sitting up in Norfolk, so they had to fly down to get repaired.

But I can tell you a worse one than that. The Navy, was it—I forget the name of it, but it had to do with communications and radio work. It was done at the Norfolk Naval Shipyard in the annex, St. Julian Annex. So they closed Charleston in that year. I forget what year it was. They took all those ships out of Charleston, but they put the communications system, so now, the only one that benefited was U.S. Air, because then they had to fly from—you know, so that is our fear of two, you know, maybe you wouldn't mess up, you would be more careful in one. But you are going to have enough trouble just getting one through, so I don't know. But just prepare yourself for that.

I think that's what they—you know, all this talk about—all of you talked about the real estate aspect of it. Nobody mentioned anything about base operations. That thing is really—am I imagining that that is hurt worse than anything, all the cuts in that? Is that my imagination or is it just base commanders complaining? Anybody like to—

General VAN ANTWERP. I could just for the Army, we are in 2001, this budget funds the base ops at 96 percent to run the base. So I think it is really more in the RPM—

Mr. SISISKY. Excuse me. Ninety-six percent of what figure?

General VAN ANTWERP. Of the requirement.

Mr. SISISKY. Of the requirement?

General VAN ANTWERP. Yes, sir. So that is the—

Mr. SISISKY. While you have got the microphone, you made a statement about the 90 percent mark in 2005. That is what you want to get to in real property maintenance?

General VAN ANTWERP. At least that high. I mean, I will tell you a—

Mr. SISISKY. Well, let me just tell you what the problem is in that. You have been snookered, because they are basing that savings on an illusion that privatization is going to produce about \$5 billion. Now, you prove it to me that it is going to do \$5 billion. I am telling you, your fund is going to be shrunk if you base it on

that. And that is what I worry about. And a lot of other things that are happening in the Department of Defense, based on an illusion that it may happen.

I am not sure, Mr. Yim, when you said that the savings are real, coming off of the BRAC, that we do know that they are real. I got so upset eight years ago. I put the largest amendment that has ever happened in this place, a \$70 billion amendment, and guess what it was for—to do away with DBOF because everybody was dipping their hands in the DBOF fund, which had to do with the D-builders all around and shortening those, you know. So you know, I worry, because I have seen it happen, you know, if we are going to save it in the accounting system is probably not the best that we will even know.

Public works, now, is that an illusion of mine, too, that you privatize mostly public works. And is that saving a lot of money?

Admiral SMITH. If I could take that one, sir. I answered this, of course, as a two-time public works officer and a former Commanding Officer (CO) of a DBOF-funded activity, I am sensitive to everything that you were talking about. We, of course, have a very active Commercial Activities (CA) outsourcing program, and public works utilities, of course, is a part of public works, and this is my third round of A-76 in my career. And I don't think any of them were easy, and this one isn't any easier either. We have gone back and, of course, we are in the middle of a lot of studies. We are studying everything from janitorial services and trash collection up through, basically, utilities privatization and outsourcing of vehicles for our fleets.

We are finding savings. We found some substantial savings, and I would be glad to detail those for you for the record. The savings, what our friends in the comptroller shops have already taken from the budgets, that is not always a match, and I think that is what you were alluding to before, sir; but there is money to be saved there. There is money for us in the facility side to save there. Within my clemency at Naval Facility (NAVFAC), I have 1,200 people who work on managing, maintaining, operating, and repairing utility systems. I am not sure I need any of these people. Now, I never say never—I mean, I never say always, because I know I have got people doing that on Diego Garcia; and it is hard to get Hawaiian Electric to hook a line up all the way to Diego Garcia.

But I think the point here is that we not only can save some money, and that is reason enough to keep doing it, but also, it does have a ripple effect back into our facility requirements on base, because where we can outsource utilities, we don't need a utilities shop on base anymore. Usually, the local power company or whoever will provide that in their own facilities off base.

Mr. SISISKY. Well, in the largest Naval installation in the world, you are doing that right now. I don't know if you gentlemen know, but down in Norfolk there is one commander of everything. He is in charge of every base that is around there, everybody reports to him. But public works, you know what bothers me; if you have people with sewerage, or anything, and they do maintenance work, but you save money by letting them go, and you privatize it so you do it when you have a problem, then that may be a problem. And that is why I say the savings may be an illusion to some degree.

Admiral SMITH. Yes, sir. And that is always a concern, again, that you estimate the savings higher than they actually are. From a provision of service side, I do remember—that is why I have got all this gray hair—when we first contracted out things like trash collection, and we had several contractors default, it is kind of well, what happens once you get rid of the trash trucks and you can't pick it up yourself.

Mr. SISISKY. I will tell you a better one than that. They hired a foreign company to fix cranes. I didn't realize fixing cranes was about \$250,000, these huge cranes at the shipyard.

Admiral SMITH. Portal cranes, yes, sir.

Mr. SISISKY. So they hired this company, and it was a foreign company, said they could do it for \$50,000. Well, what they did, they went bankrupt like in nine months. So do you know what I did? They have got a little thing in military construction budget, and you probably know, building a railroad down there. What we are going to do now, and it will pay back in five years, we are building a railroad to move the cranes all around the yard and do away with half the cranes. It makes sense.

Admiral SMITH. Yes, sir.

Mr. SISISKY. So you say that it is not an illusion, or is an illusion, that we are saving money, or you don't know?

Admiral SMITH. I would say, sir, it is not an illusion. We are saving money. It is a question of how much and, again, does it match the projections.

Mr. SISISKY. I know the one question I really want to ask all of you, though. When they dip into RPM or base operations for contingencies, what percentage do you get back? Do you get it all back, half back? The Marine Corps said they got \$6 billion—or \$29 million back.

General VAN ANTWERP. I didn't understand what percentage that was that he—

Mr. SISISKY. I don't know either. That is why—

General VAN ANTWERP. From the Army's standpoint, I will have to get that one for you for the record. We do get some of it back. There is no question about it. Is it 100 percent? I would speculate no.

Mr. SISISKY. I don't want you to get in trouble.

General VAN ANTWERP. I know. Thank you, sir. I appreciate that.

Admiral SMITH. Sir, I would have to say the Navy is happiest forward deployed around the world, and if we have got to take money out of RPM, well, there is enough Naval officer left in me to say, so be it. But I would say—I will take that also, if I could, that we get most all of it back. We do pretty well at the end of the year. But again, it is a matter of priorities. It really is.

Mr. SISISKY. General Robbins.

General ROBBINS. I think the prudent thing for an engineer in the Air Force to say would be, since we don't have any money to start with, we don't have any to lose. Perhaps, the more politically correct answer would be, it would be hard to say how much is diverted from RPM to go to contingencies to start with, as was alluded by one of the panelists earlier. We tend to be underfunded in the budget process itself. And so to determine how much we

didn't get because a contingency comes along becomes a pretty difficult accounting problem.

I know of no instance in my previous experience at Air Combat Command, sir, down at Langley, which you are familiar with—I don't remember us ever taking money that we already distributed to the wings and air combat command for RPM, pulling it back and saying we need to fund contingencies with this. What really has happened is we have seen a decrease in the year-end fallout money that comes our way, because it tends to be used to pay for those contingencies.

We got a good healthy chunk of money after the Kosovo supplemental. Whether it is distributed, dollar for dollar, where we would have put that money in the first place or not is almost impossible to determine.

Mr. SISISKY. All right.

General MASHBURN. Yes, sir. I would say it competes very well. I would not at any time say we could get 100 percent reimbursement, but it competes very well.

Mr. SISISKY. I do have another question, but I will let my friend over here ask some questions. I am sorry. Then I will come back.

Mr. ORTIZ. I yield to my good friend and colleague from Texas, Mr. Rodriguez. Congressman.

Mr. RODRIGUEZ. I know Congressman Sisisky is very shy and so I want to thank you for yielding to me. I wanted to share with you, we have in San Antonio, and I am sure throughout the country, a lot of old bases, like Fort Sam and Randolph, that have some beautiful structures. And I know the last thing we want to do is knock some of those down. In fact, in some cases, the communities would not allow us to do that.

But I wanted to throw out the question in terms of whether we need to do anything special in terms of historically for those historical sites that are throughout the country, in terms of making sure we maintain them appropriately because we want to do that for historical reasons. Also, in terms of I realize that a lot of them are still being utilized; and so I wanted to make sure, you know, I want to get your feedback on that one.

Second, I wanted to also—I know, Mr. Yim, you mentioned a little bit in terms of the Brooks project in San Antonio; and I would want for you maybe to make some comments, because I think that not all bases are the same, but there are some opportunities out there—not, you know, despite BRAC, or whatever, but to also look in terms of some cost-effective measures in terms of reducing the costs and cost operations. And I would want for you also to make some comments in that area.

Secretary YIM. Yes. Thank you. First, on the historic issues, the historic properties, and this is more than just historic quarters; we have historic buildings, facilities. What we are suggesting is in our proposal for enhanced use leasing of our underutilized facilities, that the historic properties give a character to our installations and, actually, are often coveted by the private sector to use for representational events, conferences. It gives a cachet that is very nice for the private sector to use; and since we don't use a lot of our historical facilities to the full extent, that that is perhaps a vehicle that we could have some dual use, or renting of our facilities, and

then capture the money in our enhanced use leasing proposal, and then keep it at that installation either to help maintain that historic property or to fund other real property maintenance or other infrastructure requirements.

And I think that would—that would give them some functional significance to the preservation of our historic properties. If we are just looking at preserving them for their historical sense without a functional significance, there is always pressure to demolish them or underutilize them. We would like to give an economic, functional significance to them in that manner; and I think that is a good vehicle.

Our data seems to show, and I think many people think it is much more expensive to maintain historic properties than others, that is probably not precisely true. It is more a function of the age rather than their historical character itself. And then if you also look at the life cycle cost of them, if we are putting a slate roof, for example, back on an historic property because that is what the appearance was, it has a much longer useful life than other types of building material. So over the cycle, the life cycle, it is about the same as most of our other facilities. But that is one that we would like to look at.

The other significance of historic properties is people are beginning to lose contact with the military and what role the military plays. And to the extent we can use historic properties as draws for the general public to come onto our bases or participate, it gives them a better sense of what the military is all about, and that fulfills another important goal for us.

With respect to Brooks, as you know, sir, I am a very big advocate of Brooks and other projects like Brooks. Brooks is a project where we are actually asking a partnership in a true sense between the military installation and the community to help us with our operating costs. We are talking about concepts even as innovative as perhaps even leasing the whole—or conveying the whole property to the community and leasing back on the assumption that the private sector, taking advantage of the economies of scale, can be more efficient in management of installations than we can. And plus, it allows us to fulfill that other goal I just talked about, integrating the military function, military life, with the community, and giving people a better sense of what we do. So I think there is great potential in Brooks. We were able last year to get legislation allowing us to proceed. We have some reports back to Congress on that, in July, on progress for that. But you will see that my office installation is very, very strongly supportive of those type of concepts.

I would like to mention one other thing, if I could, too, on our funding. And to go back to Congressman Sisisky's view, we do have problems with estimating the savings. And sometimes our budgets are—the comptrollers take more in assumed savings than perhaps we really can deliver. I also have to mention that last year, Congress in the Appropriations Act took \$100 million from us on assumed savings from competitive sourcing. And that was quite a hit that we took from our own budget lines. So we would ask your support in helping us maintain our projections.

Mr. RODRIGUEZ. Thank you for those comments. Let me add one other thing. When you talked about historical sites, I know—and I would ask that, you know, because I think we have some unique sites out there. I have the distinction also of having Fort Ringo that was one of the forts that goes back a long time—not Bill Ringo, Fort Ringo. And it was turned over to the school district down there. And it is a beautiful facility right on the Rio Grande out there in Rio Grande City. And it used to be called Davis Landing way back in the 1850's, and so it is a beautiful facility. Yet, you know, and so you see some of those sites out there. And I think we have an obligation, I think, to all Americans that we kind of safeguard some of those sites. And I am not sure, exactly, how to go about that, but I would hope that maybe in the future we would come up with some recommendations as to how to do that.

In reference to your comments, also, regarding Brooks, I think it is a unique opportunity. Not all communities would want to do that. Fortunately, we do have a community in San Antonio that is willing to move forward on some of that. Mainly, because of experiences from the closure of a base that had 20,000 people there, and that is Kelly. And so I want to thank you for being here and your comments. Thank you. And I relinquish the remaining time to my colleague.

Mr. ORTIZ. I think that Congressman Sisisky has another soft question for—

Mr. SISISKY. Well, just following on him, an historical thing, it is amazing what you can do with buildings today. We have historical plaques, Civil War plaques, at the Norfolk Naval Shipyard, and we have modernized those buildings. Now, they look terrible from—I mean, they are brick, they are not terrible, but they are old buildings. But you should see what they have done on the inside. It is unbelievable with computers, and carpets, and lighting, and everything. We have also built a very expensive hospital down there, and one of the buildings, you cannot tear down, so we will make that the administration building. So you know, there is something.

But what I wanted to ask you, I have told General Van Antwerp this story, and it has to do with family housing. I was over in Korea last fall, and I was having lunch with a group of soldiers. And you know, you go around the table from the state, I am from Fairfax, Alexandria, Fredericksburg, Richmond, and I get to this last one, and he says, Congressman, I am from Fort Lee, Virginia, and my family is living in the house while I am over here that you helped build. And I will tell you, I have never had a feeling in my life like that. But it was on base.

And this is what I am asking you. I tried when I was on military construction to do something simple like the Virginia Housing and Development Authority, to loan money to sailors, because the Navy was in a position not to guarantee completely; but if you are an east coast sailor, you will usually be placed in Norfolk. If you are a west coast sailor, you would be in San Diego or Bremerton. So they could buy a house, even the lower enlisted person with very little interest rate.

But how important do you think—and I know this is true with the Army. And of course, now, with the new expedition in the Air

Force and Marine Corps, how important is it living on base in a family atmosphere where a young man or woman knows that when they are overseas, their family is in a family group. How would you weigh the importance of that?

General VAN ANTWERP. Sir, I would say from an Army standpoint, it is very important. If you just look at the waiting list of people wanting to move on post, you will find they are enormous. They can run two years, over two years. Right now, we house about 25 percent of our people on our installations, so the majority of people live off the installation. But there is no question that it is the most attractive, both probably from a financial standpoint, from a community security standpoint, from having all of the benefits of living on post for the activities that are there for youth, just a lot of pluses why you want to do that.

But we—you know, our deficit on post is huge, if we would try and bring the percentage up much.

Mr. ORTIZ. And if I may, I think that because the military owns the land, if there is enough land on base, then it would be cheaper to build—and correct me if I am wrong—than it would be to, either if it is a joint venture on the outside, because of the land that is owned. Now, many of the bases might not have as much land. But maybe you can add that to the question that Mr. Sisisky just asked.

General VAN ANTWERP. I would just—in our one housing privatization that we awarded recently at Fort Carson, Colorado, part of that contract is to build 800 new sets. Of that 800 sets, that number was devised in working with the local population. We are finding that out in the economy, they can do mostly the two bedrooms. But the three and four bedrooms for our junior people, what they can't get out on the economy for what their allowance is, that is what we are going to build on the installation. And with that land, the little cost of land, if you have the space, it is a winner. So you are exactly on target there, sir.

Mr. ORTIZ. Admiral.

Admiral SMITH. Thank you, sir. First off, to say the Navy is for the large part coastal and urban, over 80 percent of our sailors live out in town in the community right now. That doesn't mean that the socialization that is offered by being on base and living in the community isn't of value to us, especially, when our sailors will deploy for six months or longer at a time. So that is an important thing to us to be able to provide to our service members.

Within the seven Planning, Programming and Budgeting (PPB) actions we have ongoing right now, some of them in Texas, we are also looking at using some of the authorities that the Virginia Housing Development Authority (VHDA) has in the Tidewater area. Land fleet had already proposed yet another pilot project; and they brought that to Washington, and we are talking to the Navy Secretary and Mr. Yim's staff about perhaps proposing that forward. I mean, that is not soup yet, but I think you all will be hearing from us shortly about that because, again, that is a wonderful agency down there. And our goal, as always, whether it is married family housing or bachelor housing, is to try to help more sailors faster.

Mr. SISISKY. I will tell you what made me ask the question if you really want to know the truth, other than that young man thrilling me in Korea. We were interviewing dependent wives after Kosovo. I went down to Norfolk with the President and the Secretary of Defense. And one of the dependent wives said, you know, what really worries me—and she said, not in Norfolk, Virginia, because this is a military town, not in Norfolk, Virginia; but we are kind of treated like being on welfare all the time—we are second class citizens. People think we just get doles out from the government, and she was very sincere. She was in other places that I have been. She said I just want to make it plain, that this isn't Norfolk.

And I wonder if that permeates through the system. That is why I mentioned the on-base housing versus the off-base housing.

Secretary YIM. I think, Congressman, that I have to give a slightly different view, too. There is some doubt on the other side, in fairness to the issue, that particularly with families now that have working spouses, that if they could afford better quarters off-base, that they would prefer to live off-base. There was a recent study, for example, to that effect. Now, there is always going to be a need, always a need for on-base housing. We are never going to go completely away from that. We also are privatizing on-base housing so we can keep it on base but have the management responsibility shifted to the private sector, and there is some benefits of doing that.

When we overbuild on-base housing, there is quite a tale that goes along with it—roads, and support centers, and child care centers, and schools, et cetera. So there is quite an associated cost that sometimes also can be shifted to the community. I think that the increases in the basic allowance for housing, we are going to see does it really drive down a lot of the requirements. Is the Rand study correct, are people going to prefer to live off base? And I think we are going to see a mix of people still preferring to live on base, but more and more people actually preferring the off-base alternatives if they can afford quality quarters.

Mr. SISISKY. If they can buy now. May I—because this is something that is bothering me, and I haven't been on a military construction subcommittee to really get in it. I was in it for a while. Do we have any real estate experts in the Department of Defense now? I mean, for leasing. Let me tell you why. I raised Cain—I mean, you can't believe—over Southcom's leasing down in Miami. I could not believe that anything like that—and then, you know, the government Corps of Engineers did it, but he doesn't have the expertise to do it. I doubt whether you gentlemen have the expertise. But there are people that are skilled, that knowing how to make a deal, you know, and maybe you are the ones. I don't know.

But do we have anybody, because Mr. Hamre promised me he was going to get some people in there that really were experts, because you mentioned privatization on federal land; and you are getting complicated deals here that are not easy deals, because you may say you are 100 years behind, but we are going to catch up through privatization; and it may be costing so much money that you are really not catching up.

Secretary YIM. That is a concern, sir. And I mentioned that we needed to get better knowledge management tools out in the field.

There is a lot of in-house, it is smart people. And it is not because they are not smart, it is because they don't have the experience. This is a very different deal for us, and this is not a housing construction project. What we are looking at is a management project over time. The deals don't crash and burn in the first couple of years because they look like a standard construction project and we can do that. They will crash and burn if the financial or cash flows aren't sufficient to be able to do the repair and replace the roofs in the tenth year, or the fifteenth year, or the O&M account isn't sufficiently funded and the guys go bankrupt on us.

A lot of people, a lot of the services are augmenting with outside real estate experts that have worked this issue for either public entities or for private sector and bringing on that expertise and really learning how to do this. That is why we have had, frankly, a slow pace of housing privatization.

Mr. SISISKY. It has been slow, there is no question about that.

Secretary YIM. And I think we, justifiably, should be criticized for it has been slow. We have had some fits and starts. This is all part of this kind of market research, because we didn't even really know, frankly, what to ask for when we went out to the private sector. And I think we are getting better on that.

Mr. SISISKY. All right. I will let everybody go to lunch.

Mr. ORTIZ. Just one more question if nobody else has any questions. You know, I know that industry has a cost analysis system, more or less, how much it costs to maintain a square foot of building. And when you look at that, it may be a newer facility versus an older facility. Could you give me the difference, more or less, how much it would cost to maintain a newer facility and an old facility?

Secretary YIM. I think that I will need to take that one for the record, because there will be a variety of different factors. So let me not just give you a cavalier attitude or answer. We will look at that more closely. That is what we tried to do with this costing handbook, is to try to get commercially benchmarked measurements on what it would cost to maintain both old and new facilities.

Mr. ORTIZ. Thanks, Mr. Secretary. General.

General VAN ANTWERP. Sir, I would just say that right now in the Army, we are around \$3.50 per square foot, but that is for all the buildings. And as you recognize, if it is a new building, it could be less. I personally think, based on the private sector and what we found, it is somewhere in the \$5 to \$6 range, \$5 to \$6 a square foot. It is very dependent on the type of building, the type of use. A warehouse space is much less than a child care center, for instance. So it has some dependence on that. But it is up in the \$5 to \$6 range, I would think.

Mr. ORTIZ. Thank you. Anybody else? If not, we want to thank—I am sorry.

General MASHBURN. Sir, if I could address Mr. Sisisky's question concerning base housing and the requirements for dependents of deploying members; historically, we have found that we have concentrated so much on the 25 to 30 percent of our military families who live on base and we greatly neglected that 70 to 75 percent who lived off. We found that many of our young Marine families

desire to go to their home and be with their parents and family when our young Marines deploy. So I think in the entire package of benefits, we really must concentrate on Basic Allowance for Housing (BAH), medical benefits, so that when they go home, they feel like they are still part of the military.

Mr. ORTIZ. Thank you, sir. If there is no further questions—he moves, Mr. Sisisky. I am glad he is my friend. Let me thank Mr. Secretary and all of you for being here. I think that this was a very informative hearing this morning. We want to thank you, and if there is no further business, this meeting is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned.]

A P P E N D I X

MARCH 1, 2000

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 1, 2000

Modernizing the Department's aging infrastructure is no small task. But that is what is needed to make them viable. In some cases they need to be modernized just to become efficient facilities. In other instances they need to be modernized to meet minimum standards and improve the quality of life of the service members and civilian employees. I just find it difficult to understand why we cannot make it happen. I am disappointed in knowing that even though we have consistently added money to the Real Property Maintenance account, we cannot make a dent in the backlog. Even more distressing is the fact that the Department does not have a comprehensive strategy for maintaining the Services' infrastructure. I am interested in understanding how the Department intends to break the cycle of sustained underfunding real property maintenance and infrastructure.

Modernizing the Department's aging infrastructure is no small task. But that is what is needed to make them viable. In some cases they need to be modernized just to become efficient facilities. In other instances they need to be modernized to meet minimum standards and improve the quality of life of the service members and civilian employees. I just find it difficult to understand why we cannot make it happen. I am disappointed in knowing that even though we have consistently added money to the Real Property Maintenance account, we cannot make a dent in the backlog. Even more distressing is the fact that the Department does not have a comprehensive strategy for maintaining the Services' infrastructure. I am interested in understanding how the Department intends to break the cycle of sustained underfunding real property maintenance and infrastructure.

197

**Again I welcome all of our distinguished witness here
today ... and I look forward to their testimony and response to
questions.**

2/28/2000 6:48 PM

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness
Committee on Armed Services, House of Representatives

For Release on Delivery
Expected at
10:00 a.m.
Wednesday
March 1, 2000

DEFENSE BUDGET

Real Property Maintenance and Base Operations Fund Movements

Statement of Neal P. Curtin, Associate Director, National Security
Preparedness, National Security and International Affairs Division



Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss the findings of our work on the Department of Defense's (DOD) funding of its infrastructure and of activities that directly affect readiness. The National Defense Authorization Act for Fiscal Year 2000 requires us to review the military services' funding and management of real property maintenance and base operations.¹ We have just issued the first in a series of reports in response to that mandate.² Our testimony today is based on this report and stems from congressional concerns that funds may be moving away from areas such as training to pay for real property maintenance and base operations. The services' principal source of funding for these functions is their operation and maintenance (O&M) appropriations, and the services have considerable flexibility in using O&M funds.

Today we will discuss (1) the movement of funds to and from real property maintenance and base operations during fiscal years 1994 through 1999, (2) the movement of unit training funds during the same period of time, and (3) the evidence indicating that unit training funds have been moved to pay for base operations and real property maintenance.

SUMMARY

From fiscal years 1994 through 1999, the services moved \$7.1 billion dollars into real property maintenance and base operations, bringing the total funding for these activities to \$95.7 billion, or 8 percent more than the initial congressional designation of \$88.6 billion.³ The services' movement of funds into and out of unit training varied. The Navy and the Marine Corps consistently moved funds into unit training. The Army moved funds out of unit training from fiscal year 1997 through 1999 (the only years for which comparable Army data is available). The Air Force decreased unit training funds in 1994 and 1995 and increased funding in later years.

While it is not possible to trace the origins of all funds moved into real property maintenance and base operations and to determine the effects of these movements on readiness, DOD reports show that at least some of the funds that the Army and the Air Force moved into these activities came from unit training. DOD's reports to Congress on high-priority readiness-related transfers in fiscal years 1997 and 1998 show that the Army moved \$641 million from unit training to real property maintenance and attribute these movements to increased efficiencies in training. The fiscal year 1998 report also shows that the Air Force moved \$35 million from unit training to base operations. DOD generally agreed with our analysis and facts as presented in our latest report.

¹P. L. 106-65 section 365.

²*Defense Budget, Analysis of Real Property Maintenance and Base Operations Fund Movements* (GAO/NSIAD-00-57, Feb. 29, 2000).

³We use the term "initial congressional designation" or variations of this term throughout to refer to amounts set forth in an appropriation act's conference report. These recommended amounts are not binding unless they are also incorporated directly or by reference into an appropriation act or other statute.

BACKGROUND

DOD manages more real property than any other entity in the world—more than 320,000 buildings, tens of thousands of miles of roads, and 1.1 million square yards of pavement. Appropriations for operation and maintenance (O&M) provide money to maintain this property, largely through funding for real property maintenance and base operations. DOD uses real property maintenance funds to maintain and repair buildings, structures, warehouses, roadways, runways, railway tracks, and utility plants. Base operations funding is used for services such as utilities, base communications, snow removal, security, and recreation. Unit training and operations funds are used to increase units' proficiency through flying and ground operations training and provide units with resources such as fuel, support equipment, and spare parts for equipment to meet their mission requirements.

The services have a great deal of flexibility to move funds within the O&M funds appropriation. Appendix I of this testimony shows the various ways that DOD can move funds within the O&M appropriation throughout the budget year. Our February 2000 report on O&M fund movements provides additional details on the services' movement of funds.⁴

The House report on the National Defense Authorization Act for Fiscal Year 1996 noted the Committee's concerns over the extent of resources provided for training and maintenance that are moved for other uses and the effects of such movements on readiness.⁵ DOD is required⁶ to provide detailed data on budget movements for high-priority readiness-related subactivities (budget accounts comprise activities, which consist of activity groups, which are broken down into subactivities). These reports describe movements of funds for some of the subactivities designated as high-priority by Congress and must include the total amounts moved into and out of these subactivities and an explanation of the reasons for the movement.

FUNDS GENERALLY MOVED INTO BASE OPERATIONS AND REAL PROPERTY MAINTENANCE

To identify the movement of funds into and out of real property maintenance and base operations, we compared initial congressional designations with the services' reported obligations for fiscal years 1994 through 1999. We found that the services' reported obligations were \$7.1 billion (8 percent) more than the initial congressional designations of \$88.6 billion. Table 1 shows the difference for each of the services.

⁴*Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements* (GAO/NSIAD-00-18, Feb. 9, 2000).

⁵House Report 104-131, p.150 (1995).

⁶10 U.S.C. 483.

Table 1: Net Differences Between Initial Congressional Designations and Reported Obligations for O&M Base Operations and Real Property Maintenance (fiscal years 1994-99)

Current dollars in millions

Service	Initial congressional designations ^a	Reported obligations	Increase over congressional designations	
				Percent increase
Army	\$31,511.8	\$34,088.0	\$2,576.2	8.2
Navy ^b	21,798.4	22,114.5	316.0	1.4
Marine Corps	6,086.0	6,454.4	418.5	6.9
Air Force	29,241.5	33,069.2	3,827.7	13.1
Total	\$88,587.7	\$95,726.1	\$7,138.5	8.1

Note: Amounts may not total due to rounding.

^aInitial congressional designation as reported in appropriations acts' conference reports.

^bNavy officials indicated that for fiscal year 1999 reported obligations, not all base operations and real property maintenance funds were accounted for in the table. This was due to the Navy restructuring these accounts after the initial congressional designation had been made. Some functions, such as those associated with equipment maintenance for communication antennas, that were formerly considered as base operations and real property maintenance are no longer accounted for in those subactivities.

Source: Our analysis based on congressional appropriations acts conference reports and DOD's O&M budget data.

In 1996, the services separated base operations from real property maintenance in their budget structures. We were thus able to analyze the changes in funding for these two functions separately from 1996 through 1999. During this period, the services' reported obligations were \$2.7 billion (4.5 percent) more for base operations and real property maintenance than the initial congressional designation of \$61.2 billion. Most of this increase (about \$2 billion, or 73 percent) was for base operations functions.

MOVEMENTS OF SERVICES' UNIT TRAINING FUNDS VARIED

In our recent report, we analyzed the movement of funds into and out of unit training during fiscal years 1994 through 1999 and found that these movements varied by service. The Army (which does not have comparable data for fiscal years 1994-96) moved funds out of training in 1997-99; the Air Force moved funds out of training in 1994-95 but then reversed this trend and moved funds into training in 1996-99; the Navy and the Marine Corps consistently moved funds into training.

- The Army obligated \$1.1 billion (12 percent) less than initially designated for unit training in fiscal years 1997-99.

- The Air Force obligated \$400 million (3 percent) less than initially designated for unit training in fiscal years 1994-95, then obligated \$2.6 billion (10 percent) more in fiscal years 1996-99.
- The Navy and the Marine Corps obligated a total of \$2.1 billion (8 percent) more for unit training than their combined initial designations for fiscal years 1994-99.

The effect of these fund movements on readiness is not measurable. DOD data on the movement of O&M funds is limited. However, we reviewed DOD's high-priority readiness-related transfer reports for fiscal years 1997 and 1998 and found instances in which the Army and the Air Force moved unit training funds into base operations and real property maintenance. The reports show that the Army moved a total of \$641 million from unit training to real property maintenance and base operations and attribute the movements of these funds to increased efficiencies in completing unit training. The fiscal year 1998 report also shows that the Air Force moved \$35 million from training to base operations and notes that commanders increased real property maintenance funding by about \$155 million, without citing the source of those funds.

It should be noted that these reports are limited in that they show only fund movements and do not address the impact of these movements, other than financial ones. In our future work we will further explore the availability of data to help assess the impact of O&M fund movements on readiness.

In conclusion, we would like to note that we will continue to address the remaining areas of interest cited in the 2000 Defense Authorization Act and will try to shed more light on the relationships between readiness, quality of life, and infrastructure funding. Mr. Chairman, this concludes our statement. We will be happy to respond to any questions that you or the Members of the Committee may have regarding our work.

Contact and Acknowledgments

For future contacts regarding this statement, please contact Neal Curtin on (202) 512-5140. Individuals making key contributions to this statement included Brenda Farrell, Janet Keller, Laura Talbott, Douglas Mills, Janine Cantin, Janine Prybyla, and Stefano Petrucci.

Appendix I

HOW O&M FUNDS CAN BE MOVED

DOD has considerable flexibility in using O&M funds and can move them in several ways. As shown in figure 1, after the initial appropriation is made, DOD can adjust funding through

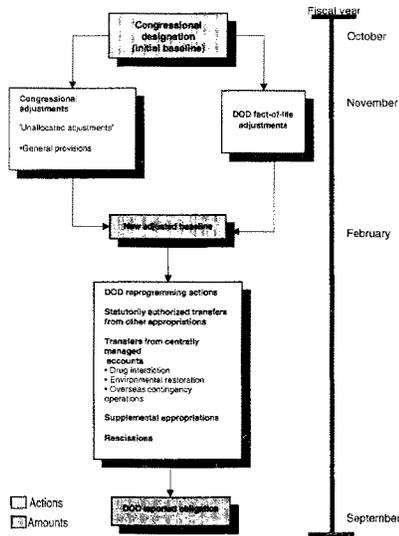
- adjustments directed by Congress in conference reports on appropriations acts and
- fact-of-life adjustments DOD believes are necessary due to changes, such as unplanned force structure changes, that have occurred since the budget was formulated.

After making these initial fund movements, DOD establishes a new “adjusted” baseline budget. It can then move funds through

- reprogramming actions, to move funds from one budget activity to another within the same account;
- statutorily authorized transfers, to move funds from other Defense appropriations (such as Procurement);
- transfers from congressionally established, centrally managed accounts (such as for overseas contingencies);
- supplemental appropriations that Congress provides for additional expenses during the year; and
- rescissions, through which Congress cancels appropriated funds.

Appendix I

Figure I: How O&M Funds Are Moved Throughout the Fiscal Year



*In the conference report on the appropriations acts, conferees often direct DOD to make changes to its budget baseline. These changes are known as unallocated adjustments and general provisions.

Source: Our depiction, based on Defense Financial Management Regulation DOD 7000.14-R, conference reports on the appropriations acts, and interviews with officials from the Office of the Under Secretary of Defense (Comptroller).

(702047)

HOLD UNTIL RELEASED
BY THE COMMITTEE

STATEMENT OF

RANDALL A. YIM
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS)

BEFORE THE SUBCOMMITTEE ON
MILITARY READINESS
OF THE HOUSE ARMED SERVICES COMMITTEE

March 1, 2000

Introduction

Mr. Chairman and distinguished members of this Subcommittee, thank you for the opportunity to discuss the Department of Defense's Real Property Maintenance (RPM) program for fiscal year 2001. I look forward to working with you to sustain our military installations and facilities, for they are key components of military readiness.

Sustaining the Foundation

As members of this Subcommittee are aware, good quality military installations are critical to supporting America's national security. Military installations are the foundation of a strong defense and are the platforms from which our forces successfully execute their diverse missions. Installations are where we maintain and deploy weapons systems, and train and mobilize forces for combat. Finally, installations are where our military and civilian people live and work, where they become members of their community. Real Property Maintenance (RPM) is key to sustaining that foundation, which must be properly maintained so military facilities do not undermine readiness, compromise missions or reduce quality of life.

My remarks will focus on the Department's RPM program, especially the steps we are taking to enhance our stewardship of defense facilities. First, I will set the stage by describing how the Department of Defense is restructuring its infrastructure to ensure the readiness of its military and of this nation.

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 of 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, 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

We continue to maintain excess base capacity, which wastes money. Two future BRAC rounds can reduce the cost to maintain military installations, and those monies 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 been reduced by only 21 percent through the four previous BRAC rounds. We have determined that two future BRAC rounds in 2003 and 2005 are required to address excess capacity 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 funding (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 - support aligning our base structure to meet changing mission requirements and support operations. None will achieve needed reforms alone; each contributes to the effectiveness of the others. Without BRAC, the effectiveness of other reforms will be diminished. Eliminating 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.

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 13 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 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 enduring force structure for the European theater at about 100,000 personnel and for the Pacific theater at about 100,000. Our remaining overseas facilities are essential to those forces. 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.

Finally, 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.

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. 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 \$5.3 billion for RPM and \$400 million for demolition. Despite Congressional support, the Department's RPM requirements will continue to exceed available resources. The following table shows the Department's FY 2001 Budget Request for RPM in \$ billion.

Department	RPM
Air Force	1.66
Army	1.65
Navy	1.20
Marine Corps	0.45
Defense-Wide	0.36
TOTAL	5.32

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 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 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. Our goal is to determine the right size, quality, resources and information for maintaining our facilities.

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 through 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. 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.

New Program Elements: In a companion effort to the FSM model, the Department is considering restructuring 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 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 several of these private sector entities. Brigham Young University (BYU) and Lawrence Livermore National Laboratory (LLNL) were cited in the GAO report as best practices for managing real property. At BYU, the Capital Needs Analysis (CNA) Center has an automated system that can show condition and requirements for any building at the push of a button, and it can profile each building over its 40-year life cycle. It is an engineering-based system, requiring continual condition assessments of their facilities. A large student workforce enables BYU to keep down the costs of their assessments and maintenance. Similar to DoD, BYU also has several database systems where data is consolidated into their overall system. LLNL also has an automated system, but it is similar to a Geographic Information System (GIS). LLNL also relies on condition assessments, and they, too, rely on data from several sources. LLNL uses a working capital fund concept, charging \$7 a square foot for repair and maintenance. In both cases, the building managers have direct access to RPM funds, unlike DoD facility managers who have multiple layers above them and a complex budget process. BYU and LLNL use the same industry standards for determining facilities sustainment requirements as we're using in developing our Facilities Sustainment Model.

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.

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 as well as more healthy and productive work places. 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 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. Already, we have achieved some success in this area. Power contracts awarded by DESC in California, Pennsylvania and New Jersey bundled loads from all 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, however, with over 1,500 systems remaining to be transferred by September 2003. 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. The House Armed Services 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, title 10, United States Code, the current authority we have to out-lease property. Enhanced-use leases with the private sector could generate added value (cash or in-kind consideration) to offset some of the installations funding shortfalls, while at the same time improving the condition of facilities and preserving historically significant buildings.

The proposed changes would: 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.

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.

Conclusion

This concludes my prepared testimony. In closing, Mr. Chairman, I sincerely thank you and this Committee for giving me this opportunity to describe our installations' and facilities' programs and for your very strong support for the sustainment of DoD's facilities.

221

RECORD VERSION

STATEMENT BY

**MAJOR GENERAL ROBERT L. VAN ANTWERP, JR.
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT
DEPARTMENT OF THE ARMY**

BEFORE THE

**SUBCOMMITTEE ON MILITARY READINESS
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES**

SECOND SESSION, 106TH CONGRESS

**ON REAL PROPERTY MAINTENANCE AND
INFRASTRUCTURE FUNDING**

1 MARCH 2000

**NOT FOR PUBLICATION
UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES**

Mr. Chairman and members of the subcommittee, it is an honor to appear before you today to discuss the Army's approach to real property maintenance and infrastructure funding. Our funding request for Fiscal Year 2001 is \$1,746,000,000 for all Army components.

The Army plays a vital role in the execution of the National Military Strategy. It provides the most flexible and versatile capabilities for meeting the Nation's force requirements, from humanitarian assistance to combat operations. The Army must sustain a force of high quality, well trained people; acquire and maintain the right mix of weapons and equipment; and maintain effective infrastructure and power projection platforms to generate the capabilities necessary for executing the National Security and National Military Strategies across the full spectrum of military operations. Our installations are the infrastructure and power projection platforms in direct support of Army readiness. They provide the places where soldiers live, work and train. As our force transforms, our installations and facilities must keep pace to retain the capability to support the warfighters and meet national security missions.

Readiness for executing the Army mission requires the right facilities, in the right locations, in the right quantities, and in the right condition. The method for managing this complex concept begins with an analysis of unit locations and missions. This "stationing analysis" determines how much of each type of facility specific installations require. Comparing this facility requirement to the actual inventory identifies facility deficits as well as excess infrastructure. Annual inspection of facilities using defined, published standards provides a consistent and current picture of facility condition and the ability of facilities to support their designated mission.

Facility maintenance and modernization are a "pay me now or pay me later" situation. Routinely funding all maintenance and repair requirements is almost always cheaper than repairing the damage done when it is deferred. Performing preventive maintenance and scheduling major system replacements requires less effort and funds than performing reactive maintenance - currently our normal modus operandi. Modernizing as repairs are performed also reduces future maintenance requirements and costs. Adequately funding real property maintenance (RPM) requirements to sustain our facilities makes sense if we wish to keep our facilities viable and mission ready.

Years of under funding have made most of our facilities only marginally mission capable. The average age of Army facilities is 44 years, and most have not been modernized. These facilities still have original plumbing, heating and electrical systems that have been patched to remain operational. While the structural integrity of the facilities may be good, these other building systems are failing. We are forcing many of our soldiers, civilians and their families to live, work and train in substandard conditions. The Army's challenge now is to improve facility conditions while balancing other readiness and quality of life issues.

We are "turning the corner" and making progress toward this, but we have a long way to go. We are focusing our real property maintenance program efforts on reducing RPM requirements, and sustaining and modernizing required facilities to defined, published standards. We are reducing our facility inventory and thus our maintenance and repair or modernization costs. We now only provide RPM funding for required facilities, which allows funding to be better focused on halting the further deterioration of these facilities. We have established focused investment programs to modernize and replace specific facility types such as barracks and strategic mobilization projects. But even with these efforts, funding is insufficient to sustain our required inventory and to modernize it to current standards.

We define sustainment as the funding necessary to provide the level of maintenance to keep facilities in their current condition and halt further deterioration. Modernization funding restores facilities from their current poor condition to fully functional and mission capable condition that meets or exceeds today's standards. It also eliminates backlog in repair and maintenance. Modernization frequently involves replacing existing facilities rather than renovating existing facilities because this is the only practical solution for many facilities. Modernization also includes construction of facility shortfalls. Understanding these definitions is important for the discussions on how we wish to maintain and improve our installation facilities and infrastructure.

Without funding the minimum annual real property maintenance (RPM) sustainment level, facilities will continue to deteriorate and the investment made to modernize facilities will be in jeopardy. It will take over 190 years to modernize or replace the required inventory at current Military Construction (MILCON) funding levels. Figure 1 shows the RPM funding (OMA, OMAR, OMNG appropriations only) picture for the past and present. Funding remains insufficient. Commanders have recognized this and to partially offset the funding shortfall, have migrated funds from other readiness accounts into RPM to accomplish critical work (Figure 2, OMA only). Even this is not enough and adversely affects soldier readiness because it is generally taken from training. However, given the increases in RPM funding in Fiscal Years 2000 and 2001, we anticipate less migration than in prior years.

**FIGURE 1
RPM Funding**

\$ Mil	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
Active Army	1,243	748	834	849	1,318	1,257	1,174	1,093	1,437	1,429
Army Reserve	45	29	56	59	48	51	85	61	128	115
Army National Guard	82	54	81	90	150	134	136	136	194	202

**FIGURE 2
Fund Migration (Active Component Only)
(+ Into RPM; - From RPM)**

\$ Mil	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
Budget	1,243	748	834	848	1,318	1,257	1,174	1,093		
Obligations	1,283	847	830	1,083	1,257	1,125	1,207	1,296		
Migration	+40	+99	-4	+235	-61	-132	+33	+203		

We estimate that the bill to modernize or replace substandard facilities to currently acceptable standards is \$15.4 billion for the Active Component, the Army Reserve and the Army National Guard. This is not achievable without the ability to unlock the value in our installation assets and operations. Our current facilities strategy has us on the right path but, by itself, will not take us to our goal. The Army's goal is to provide comprehensive, adaptable power projection platforms with quality facilities, infrastructure and services that are integral to the readiness and well being of our soldiers, their families and the civilian workforce.

As part of our effort to better focus our investment, we have developed decision support tools, the Installation Status Report (ISR), and Army Installation Management – Headquarters Information (AIM-HI), to help formulate and monitor

our facilities strategy. We use the ISR to assess the status of our facilities' condition essential to the installation's mission and the well being of our personnel. The ISR also identifies facility shortfalls critical to mission accomplishment. The ISR provides cost estimates, based on industry accepted cost factors to modernize facilities to current standards. This gives us a representative cost to bring our facilities up to "good" condition and eliminate maintenance backlog. The AIM-HI model is used to calculate RPM sustainment requirements. Together they help us identify critical areas to consider in resource allocation. These tools are not perfect, but do help our leadership in making educated facility strategy decisions and reviewing the effects of those decisions on readiness.

As indicated already, our current strategy addresses divesting or disposing of unneeded facilities and infrastructure, providing RPM funding for required facilities only, and fully funding the minimum annual RPM sustainment requirement. This strategy is programmatic and covers all Army requirements - Active Component, Army National Guard and U.S. Army Reserves. It focuses on outcome rather than individual project actions and intermixes RPM and MILCON funding. It establishes investment streams to fully fund sustainment and modernize selected categories of facilities.

Implementation of this strategy will require an integrated steady annual funding stream of RPM and MILCON funding for modernization. Modernization programs will be in discrete packages to be accomplished within 10 year or less buyouts. The funding mix for modernization may change from year to year, but with a steady stream of funding we will improve our facility condition posture within the next 20 years. It must be emphasized that modernization must be complimented with full funding of the minimum annual RPM sustainment requirement or the degrading of our facilities, including modernized facilities, will continue and the facilities strategy is doomed to failure.

Along with the strategy, we will continue to pursue additional innovative ways to modernize our infrastructure and reduce the cost of our facilities. We will look for better ways of doing business, reducing infrastructure, and streamlining and consolidating operations. Partnering with the private sector and relying more on local economies to provide "non-core" Army support will become a new paradigm. Finally, Base Realignment and Closures (BRAC) allow us to divest excess property, recapitalize our required facilities and infrastructure, and make funds available for other, higher priorities. We need additional rounds of BRAC. BRAC is the only proven means we have to reshape our installations and achieve the savings necessary to support our Army in the 21st Century.

Thank you for this opportunity to discuss our RPM and infrastructure funding issues and introduce our facilities strategy to support the transforming Army. Together we can make our installations reflect our true resolve to maintain the best, most capable Army in the world.

Mr. Chairman, this concludes my statement. Thank you.

NOT FOR PUBLICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF
REAR ADMIRAL LOUIS SMITH
COMMANDER
NAVAL FACILITIES ENGINEERING COMMAND
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
MILITARY READINESS SUBCOMMITTEE
HEARING ON
REAL PROPERTY MAINTENANCE
MARCH 01, 2000

NOT FOR PUBLICATION UNTIL
RELEASED BY THE
HOUSE ARMED SERVICES COMMITTEE

Good afternoon. Mister Chairman and members of the Committee. I am Rear Admiral Lou Smith, Commander of the Naval Facilities Engineering Command. I appreciate the opportunity to speak to you today on the Navy's Real Property Maintenance (RPM) program.

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 1.6% 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 32% 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 2001 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 funding, 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 and sustain the physical plant at its current condition.

With FY00 RPM funding of just over \$1 billion, we are a long way from arresting backlog growth this year. Recently, the Navy elected to absorb the Congressionally mandated 0.52% across-the-board recession out of the RPM program. That decision, which reduced our FY00 program by over 10%, was based on RPM being a more deferrable area of the O&M budget than most other Navy programs. More importantly, RPM is a strong candidate for additional funding later in the year should there be a Readiness Supplemental or an omnibus reprogramming due to our ability to execute RPM special projects with funds provided late in the fiscal year. However, without an RPM increase this year, our current \$2.8 billion backlog of critical deficiencies is projected to grow by more than 10% during FY00.

Looking ahead to FY01, the RPM funding contained in President's Budget 2001 will enable us to boost facility investment to 1.8% of PRV next year. Although still insufficient to arrest the growth of critical backlog, the increased RPM funding in FY01 significantly slows the growth of critical backlog by 38% compared to FY00. However, 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.

PROGRAMS TO ELIMINATE EXCESS STRUCTURES

One of the most effective means to ameliorate our RPM shortfall is to reduce our

maintenance footprint. Accordingly, 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. We plan to dispose of another 2 million square feet of excess inventory this year. 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

Along with the other Services, the Navy is pursuing utilities privatization as a means of divesting ourselves of many of the operations and maintenance costs of our 990 utility systems worldwide. 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 privatize 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. We are 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). At the beginning of FY99, the Navy consolidated the number of major commands with BOS responsibilities from 18 to 8 Installation Management Claimants (IMC's). These 8 IMC's now own the Navy's shore infrastructure and are 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

Clearly, it is imperative that we place our scarce RPM resources where they will bring us the most return on our investment. 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.

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.

235

DEPARTMENT OF THE AIR FORCE

**PRESENTATION TO THE COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MILITARY READINESS
UNITED STATES HOUSE OF REPRESENTATIVES**

**SUBJECT: REAL PROPERTY MAINTENANCE AND
INFRASTRUCTURE FUNDING**

**STATEMENT OF: MAJOR GENERAL EARNEST O. ROBBINS II
THE CIVIL ENGINEER
UNITED STATES AIR FORCE**

1 March 2000

**NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

Mr. Chairman and members of the committee, good morning, I appreciate the opportunity to appear before you today to discuss the Department of the Air Force's real property maintenance funding and the potential impact on readiness.

Overview

In the early-1980s the Air Force came to terms with the relationship between quality facilities and our ability to carry out our mission. This was an acknowledgement that by providing Air Force people with safe, efficient, and modern places to live and work we could directly impact readiness. In the mid-1980s and early-1990s, our military construction and real property maintenance accounts were robust and balanced, and we made real progress in providing quality facilities and in modernizing supporting infrastructure. Since then, investment in Air Force facilities has declined as a result of constrained defense budgets and competing Air Force requirements, and we now see growth in the backlog of required work necessary to maintain the readiness edge we established in past years. We must balance funding among the priorities of people, readiness, modernization, and infrastructure. Secretary Peters, in a speech at last year's Air Force Association, Air Warfare Symposium, stated; "Because the budget is constrained, we took a risk where we thought we could afford to do so, specifically in the area of infrastructure." Meanwhile, expectations of commanders and our people remain high, as they expect us to balance direct mission support and quality-of-life efforts in the face of aging infrastructure and declining military construction and real property maintenance budgets.

We share OSD and the other Service's concerns over the level of real property

maintenance funding. We are working with OSD to develop a Facility Sustainment Model which will allow us to better identify our facility and infrastructure requirements using current industry practices. We feel this will ultimately help us better communicate our facility requirements to our own policy and decision-makers as well as our supporters in Congress.

Quality-of-life Extension

I'd like to elaborate a bit about the Air Force perspective regarding quality facilities and quality-of-life. In the mid-1980s, the Air Force definition of quality-of-life was extended beyond just family housing, dormitories, child development centers, and physical fitness facilities. We recognized that quality-of-life extended into the workplace and had an important impact on readiness.

For instance, take an airman whose job is to maintain an F-15 engine and who is working in a hangar where the roof leaks. Every time it rains he's distracted from fixing the F-15 engine so he can move buckets around to catch the water. Is there a quality-of-life implication? I'd say there is.

For that same aircraft mechanic, let's say the first time his F-15 taxis out onto the ramp it ingests a piece of concrete from a deteriorating slab. That perfect jet engine, which the mechanic spent so much time and effort on, now has to go back to the depot for a complete overhaul. Does that affect the mechanic's quality-of-life? I suggest it does.

As a third example, that same airman, the highly trained jet engine mechanic, joins

a couple hundred of his best friends to do what we refer to as a "FOD walk." For an hour out of the workday, they all march down the ramp in a straight line, looking for random pieces of loose concrete and joint sealant. I suggest our airman sees that as a direct impact on quality-of-life, even though at the end of the workday he goes back to one of the best dormitories in the Department of Defense and enroute eats dinner in a wonderful dining facility. That demonstrates the extension of quality-of-life into the working environment, and I think we're losing the battle to maintain the high standards our people have come to expect and deserve.

So a challenge facing the Air Force civil engineering community today is to operate and maintain Air Force bases so the mission is fully supported and quality-of-life is what it should be, at a time when resources have gone downward. At the same time we are dealing with recruiting and retention problems, and high operational tempo. These pressures are beginning to have an impact on our overall readiness.

Under-funded Facility Programs

As you well know, we manage our facilities and infrastructure through two major programs: First, the real property maintenance, or RPM, account within the Operation and Maintenance Appropriation, is intended to maintain the Air Force infrastructure already in place. Second, the military construction appropriation, allows the Air Force to replace antiquated facilities and to beddown new weapons systems. Although the focus of today's hearing is on RPM, success in both these areas is necessary to allow us to provide the quality facilities needed to support air

and space operations. While there are clearly several areas where we have achieved notable successes as a result of excellent congressional support, continued constraints in RPM and military construction *are* beginning to show in degraded facilities and supporting infrastructure. The results are reduced productivity on the flightline, serious infrastructure deficiencies, and sub-par administrative facilities across the Air Force.

Real Property Maintenance

In FY 1987, our annual real property maintenance investment, on average, was just over \$6 per square foot in FY 2001 dollars. The FY 2001 budget figure has fallen off to \$4 per square foot. This represents a 33% decrease. A meaningful goal for RPM investment is referenced in the September 1999 GAO report "Military Infrastructure; Real Property Management Needs Improvement". The GAO report cites a 1989 DOD infrastructure study entitled "Renewing the Built Environment" which recommends the services annually budget a minimum of 1.75 percent of plant replacement value for maintenance and repair, excluding any additional funds required to reduce existing backlog. In FY 2001 dollars, that equates to an investment of just over \$6 per square foot.

In FY 2001 RPM is funded at what we call the Preventive Maintenance Level intended to accomplish *only* the day-to-day maintenance required to sustain real property facilities and infrastructure. It does not provide the resources necessary to accomplish needed maintenance and repair. For affordability considerations, the Air Force calculates Preventive Maintenance Level, or PML requirement, at one percent of our plant replacement value. For RPM purposes we calculate the Air Force plant replacement value to be nearly \$147 billion (which could be

reduced with additional rounds of BRAC). And although the Air Force continues to operate, we are increasingly required to develop "work-arounds," which impact Air Force combat capability and operational efficiency. Examples include deteriorated airfield pavements requiring longer aircraft taxi routes, reduced munitions storage capacity due to degraded storage igloos, and increased foreign object damage risk to aircraft engines.

As mentioned previously, the current level of RPM funding defers most non-PML facility projects, resulting in a FY 2001 backlog of maintenance and repair totaling \$4.3 billion. We have developed a RPM metric we call the Facility Investment Metric, or FIM, to identify requirements above and beyond the day-to-day maintenance level. The FIM stratifies facility requirements based on mission impact and allows us to identify and track our current backlog. This backlog includes \$800 million in projects for airfield pavements, \$1.5 billion for operations and administrative facilities, \$1.1 billion for utilities and infrastructure, \$500 million for hangars and shops, \$200 million for dormitories, and \$200 million for airfield lighting, communications and navigational aids. We are putting our commanders in a difficult position because current budgets contain very limited funding to do this work. Therefore, commanders can either fund PML requirements while deferring repair work, or they can defer maintenance work so they can address their most critical repairs. Therefore, RPM funding at *only* the Preventive Maintenance Level will cause our \$4.3 billion total backlog to grow.

This scenario is projected to continue until FY 2003, when RPM program funding begins to gradually increase. Funding is currently projected to increase from one

percent of the plant replacement value to just over 1.4% by FY 2005. This means our backlog will not disappear over-night and Air Force operations and readiness will continue to experience adverse effects. However, the Air Force must limit RPM funding at the Preventive Maintenance Level so we can fund higher priority programs within our current total obligation authority.

There *is* some good news regarding facilities. The Air Force *has* benefited over the past four years from congressional adds to the RPM account for quality-of-life enhancements. This effort allowed the Air Force to greatly improve conditions in our dormitories and other traditional quality-of-life facilities, and we deeply appreciate your support in this high-visibility and high-impact area. However, we still have a lot of work to do. The Air Force currently has over \$200 million worth of validated unfunded dormitory requirements. There also exists another nearly \$400 million of other validated unfunded quality-of-life facility requirements such as child development centers, community centers, fitness centers, youth centers, and so on.

Infrastructure Reduction

On another positive note, consolidation, demolition, and privatization continue to help us leverage limited RPM and military construction dollars.

In an effort to reduce infrastructure costs and meet the Air Force's Defense Reform Initiative goal to demolish or dispose of 14.9 million square feet by FY 2003, we are continuing to execute our demolition program. From FY 1996 to FY 1999 we demolished 11 million square feet of building space. This is equivalent to demolishing five Air Force bases, equal to the combined square

footage of Whiteman, Goodfellow, Moody, Brooks, and Vance Air Force Bases. We have programmed \$40 million in FY 2001 to demolish approximately 3 million square feet. This continues our effort toward meeting the Defense Reform Initiative goal by 2003. In addition to this initiative, we also support OSD's request for authority to conduct two additional rounds of BRAC, which would accelerate the disposal of unneeded infrastructure and facilities.

Privatization is another means of reducing the Air Force infrastructure foot print. We have moved ahead with pilot housing privatization projects, including award of DoD's first project utilizing the 1996 Defense Authorization Act authorities in August 1998 at Lackland AFB. The ribbon cutting for the first 92 units occurred on 28 January 2000. We also have nine other pilot projects in various stages of development, allowing us to take a measured approach to this program and help reduce the housing revitalization backlog in a more timely manner. We firmly believe that, through privatization, we can provide improved housing to more airmen in less time than using the standard military construction process. We request your support by extending the housing privatization authorities beyond February 11, 2001.

We also continue to move ahead with privatizing utility systems -- water, wastewater, electrical, and natural gas -- with two criteria: where it is economically beneficial and does not adversely impact our mission readiness. We have 435 systems identified as candidates for utilities privatization. All systems are already under analysis. Request for Proposals for 34 systems were issued in January. These efforts will allow the Air Force to meet or exceed the Defense Reform Initiative milestones for utility privatization.

Conclusion

As engineers it is our responsibility to provide policy makers and decision makers with informed assessments of requirements along with our best judgements regarding impacts on readiness and quality-of-life. We'll continue to make the best use of resources at our disposal and, just as importantly, on the ingenuity and dedication of our officers, enlisted personnel, civilians, and contractors, to operate and maintain our bases to the best of our ability. However, tough choices still lie ahead for the Air Force. As General Ryan stated during his recent testimony before this committee, the Air Force has identified a priority list that includes items related to personnel, readiness, modernization, and "a very large need to support our infrastructure."

In conclusion, Mr. Chairman, I want to thank this committee for its strong support of Air Force programs and the benefits they have provided the Air Force in terms of readiness, retention, recruiting and the quality performance of our people. I will be happy to address any questions.

**NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE**

**STATEMENT OF
MAJOR GENERAL HAROLD MASHBURN
UNITED STATES MARINE CORPS
DIRECTOR OF FACILITIES AND SERVICES DIVISION
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR
INSTALLATIONS AND LOGISTICS
HEADQUARTERS, UNITED STATES MARINE CORPS
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
MILITARY READINESS SUBCOMMITTEE
CONCERNING
REAL PROPERTY MAINTENANCE AND
INFRASTRUCTURE FUNDING
ON
MARCH 1, 2000**

**NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE**

Mr. Chairman and Members of the Committee:

I am Major General Harold Mashburn, Director of the Facilities and Services Division, Installations and Logistics Department, Headquarters, U. S. Marine Corps. I appreciate this opportunity to appear before you today. I am particularly pleased that you have chosen to focus on Real Property Maintenance. The Marine Corps faces a continuing challenge to best utilize its scarce resources. Within the resources provided, we in the infrastructure business have been focused on making smart choices that will give us noticeable improvements in the condition of our facilities in the short term and measurable benefits in the long term.

The Real Property Maintenance (RPM) program has a strategic plan and goals in place to guide us over the next decade towards resolving our most serious deficiencies. In addition, in concert with OSD and the other services, we are developing tools to better articulate and benchmark the Real Property Maintenance requirements. We're on the right track, but the road to a sound infrastructure position is long and challenging. The Marine Corps recognizes and appreciates Congress' continuing role in helping us meet this challenge.

The Marine Corps Real Property Maintenance program reflects a balanced selection of absolutely indispensable projects and funding which finally set us on course towards a reduced backlog of Real Property Maintenance. Real Property Maintenance needs to be funded through a long term stable program. Only a sustained financial commitment at this funding level over the next 5-10 years will allow the Marine Corps to regain control of its degrading infrastructure and provide Marines with the minimal standards of work, living, and family support facilities.

I would like to address the perception some may have that the Marine Corps got itself into this predicament of deteriorating infrastructure by funding other things besides facilities. While it is true that the Marine Corps could have funded facilities programs at higher levels in

the past few years, one must ask, "At what cost?" How could we honestly have chosen to improve the condition of our facilities, when the Marine Corps' inventory of amphibious assault vehicles, Humvees, heavy trucks, weapons, and other equipment--the stuff that gets us to war and back--are well beyond their service life and costing an extraordinary amount of money to maintain? How could we improve the condition of our facilities when our helicopters and KC-130s are over 40 years old with barely enough spare parts to keep them flying? The Marine Corps has been spending a large sum of money to keep these aging systems operational when what we really need to do is modernize them quickly. If that doesn't happen, recovery and readiness--and the full ability to do the President's bidding in the foreseeable future--will be seriously degraded.

In the past few years, if we had taken money away from our weapons systems and repaired buildings instead, then I'm afraid, as our Commandant said, the Marine Corps would not have been able to claim the title of "America's 911 Force." Marines taking care of Marines means that, bottom line, we just won't fly planes that are dangerous, or put our Marines in tanks that can't survive the battlefield. Our quality of life promise to Marines has long been to give them fighting instruments that will allow them to come home safely from combat. The Marine Corps has had to make some very tough choices on how to best spend limited resources. Thus, for understandable reasons, limiting investment in facilities and infrastructure for combat readiness has been the only possible choice.

All that said, the Marine Corps realizes we cannot continue to postpone maintenance and repair of our facilities and infrastructure to the degree that we have in the past. It's just costing too much to bandage decaying buildings. We cannot continue to use our O&M money to fund what is in essence a facilities "Service Life Extension Program" (without the benefits of

modernization or full renovation) while growing our backlog of maintenance and repair projects. We need to be able to use O&M funds for their intended purpose of maintaining facilities to the end of their normal useful life span (about 50 years) rather than continuing to pour these funds into deteriorated facilities that by all rights ought to be demolished. And finally, we need to build MILCON programs that Congress can embrace fully; the kind that will get funded and ultimately convince Marines across the country that all of us in Washington DC are dedicated to providing them respectable places to work and live.

The Marine Corps has always proudly and selflessly done more with less, and we have done so without complaint. But we cannot do more with nothing. The Marine Corps needs a prolonged commitment to facilities and infrastructure programs. Without such attention, the Marine Corps could become America's "91" instead of "911" force with the facilities to match. As the Director of the Facilities and Services Division, I am compelled to ensure that the Marine Corps provide its Marines facilities that will support effective training, maintenance, operations, and quality of life. The Marine Corps' strategic goals and stringent planning process have us on the right path towards achieving recapitalization of our infrastructure while realizing noticeable improvements in quality of work and life facilities. We ask only that Congress partner with us to make these plans reality.

Now, I would like to give you more detailed information about the plans and goals in Real Property Maintenance. I think you will see that the Marine Corps' fiscal year 2001 program, and our developing outyear program, reflect a balanced effort between repair and investment to achieve efficiency and economy in funding our most critical needs, while also attempting to offset the previous decline in resources available to facilities maintenance and construction.

REAL PROPERTY MAINTENANCE (RPM)

The Marine Corps' Real Property Maintenance program has struggled with some particularly onerous problems in the past few years that have resulted in a significant backlog of maintenance and repair projects (BMAR). Because our decaying infrastructure has not been replaced at a manageable rate, the Marine Corps has had to use O&M funds to bind together old, inadequate buildings rather than to maintain newer structures through to their useful service life. The Marine Corps has responded to these challenges by developing plans to improve the condition of facilities, to demolish inadequate facilities, and to develop a strong RPM program in the FYDP. I understand that GAO has made some criticisms of the management of Real Property Maintenance within the DoD. In many cases we agree with them and have been working with OSD and the other services to make improvements.

A primary yardstick by which the condition of our facilities has been measured is the Backlog of Maintenance and Repair, BMAR. **The Marine Corps determines BMAR through inspections at the base level. At the end of each year, the bases report the work that needed to be done, but wasn't, as their BMAR. Marine Corps headquarters representatives inspect the larger repair projects reported in the backlog. These large projects reflect over half of the backlog. The Marine Corps uses a model to project out-year requirements based on historical BMAR, plant value, and funding. This model has typically been accurate to within 10 percent in predicting backlog, but it works in aggregate and does not provide detail about requirements by facility category. DOD has developed a promising model that maps industry cost factors to our physical inventory to determine maintenance requirements. We look to this model to replace our current version as it provides great detail about maintenance requirements for specific types of facilities.**

In order to slow the deterioration of our infrastructure and to improve the condition of our facilities, the Marine Corps has budgeted at a level that will reduce the backlog of maintenance and repair over the FYDP. This level of funding will allow us to continue our efforts to have all barracks in a good state of repair by the end of 2004. Our O&MMC Real Property Maintenance Budget for the last five years is as follows (dollars in millions):

	FY97	FY98	FY99	FY00	FY01
RPM	320	353	366	398	448
BMAR	684	711	709	685	665

Our long term Real Property Maintenance goal is to reduce our backlog of maintenance and repair to \$106 million by fiscal year 2010. You might ask, why \$106 million. Two reasons, first it is in line with guidance given by Congress back in 1978 which we are still trying to comply with, and it represents a good level of repair for our facilities. Because of overall fiscal constraints, our plan for the upcoming budget does not support the level of funding needed to do this, but it does allow for significant backlog reduction over the FYDP. This is a considerable improvement over projections as recently as the 1999 budget submission where we were projecting BMAR to exceed a billion dollars by 2003.

Our plans for Real Property Maintenance also include management improvements. We are currently fielding a database system to tie mission impact to facility condition. We expect this system to be fully operational by the end of this year. We are also working with OSD and the other services to establish a sustainment level of Real Property Maintenance. This system, which relies heavily on industry maintenance costs, will establish a guideline for adequate funding. We are also improving our cost analysis techniques so we can learn where our

efficiencies and inefficiencies lie using activity based costing (ABC)/ activity based management (ABM).

Additionally, the Marine Corps has implemented a demolition program to remove excess and inadequate infrastructure and eliminate the associated support costs. OSD directed the Marine Corps to demolish 2.1 million square feet of facilities between 1998 and 2000. In 1998, as part of our RPM program, we demolished 1 million square feet and are on track to eliminate the remaining 1.1 million. After 2000, we will continue to evaluate and eliminate additional excess facilities from the inventory. I must note however, while all excess inventory needs to be removed, the Marine Corps has few excess facilities. Our demolition program represents only about 2% of our plant and cost avoidance will be modest.

Finally, the fiscal year 2001 program and associated outyear plans reflect funding levels that slightly reduce BMAR. Congress provided a generous increase in fiscal year 2000, targeted at Quality of Life, and we have continued this effort. The fiscal year 2001 request includes repairs, not only to barracks and messhalls, but also to keep steam plants operational, to ensure runways don't have foreign object debris problems, to keep sewer lines functioning, and to repair the potholes in roads, among other things. These infrastructure issues in many cases have more global impact on quality of life than the specific building problems and we know they cannot be ignored. All told our investment in O&MMC Real Property Maintenance increased by \$50 million from fiscal year 2000 and continues with a profile that increases across the FYDP.

The Marine Corps offers no legislative proposals. We do not support legislated funding constraints. Commanders must have the flexibility to be able to move resources to their highest priority requirements to accomplish their military missions. While historically the Marine Corps has not migrated funds out of Real Property Maintenance, it is essential that the commander on

the ground retains the ability to transfer funds out of our programs and into readiness accounts like training.

In conclusion, Mr. Chairman, I would like to thank the Committee for its strong support of the Marine Corps facilities maintenance program. The benefits to the Marine Corps in terms of improved readiness and quality of life are substantial. Congressional support in the past indicates that you have a deep appreciation for the relationship between facilities, warfighting capability, and quality of life. There is no question that replacement and modernization of inadequate facilities can improve mission capability, productivity, readiness, and sustainability. The fiscal year 2001 Marine Corps facilities maintenance request is a full-bodied and balanced submission that supports Congressional and DoD guidance, reflects a judicious and discerning planning process, and reveals the Marine Corps' heightened priorities towards revitalizing and modernizing our facilities and infrastructure. We do this all in the name of the highest quality of life: Bringing Marines home safely from the battlefield.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you may have.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness
Committee on Armed Services
House of Representatives

For Release on Delivery
10:00 a.m.
Wednesday, March 1, 2000

**MILITARY REAL
PROPERTY
MAINTENANCE**

**Management Improvements
Are Needed to Ensure
Adequate Facilities**

Statement for the Record by Kwai-Cheung Chan, Director,
Special Studies and Evaluations, National Security and
International Affairs Division



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to share the results of our review of the management of real property assets by the Department of Defense (DOD) and the military services and of the recent initiatives taken by DOD to address issues we raised in that report.¹ We testified on aspects of this review on October 26, 1999, before the Senate Armed Services Subcommittee on Readiness and Management Support.²

Today I will discuss (1) our principal findings on DOD's strategy for management of real property and how the services determine and prioritize maintenance needs and allocate resources to them, (2) promising practices in facilities maintenance by nonmilitary entities, (3) some barriers that the services face in implementing such practices, (4) our recommendations on how DOD could improve its real property management, and (5) the steps DOD has told us it is taking in response to our report and testimony.

We focused on the properties that the services maintain and repair using funds from DOD's operation and maintenance account. The services' real property assets include barracks, administrative space, ports, hangars and runways, roads and railroad track, and schools and utility systems. Real property

¹Military Infrastructure: Real Property Management Needs Improvement (GAO/NSIAD-99-100, Sept. 7, 1999).

²Military Real Property Maintenance: Improvements are Needed to Ensure that Critical Mission Facilities Are Adequately Maintained, (GAO/T-NSIAD-00-51, Oct. 26, 1999)

maintenance of these facilities includes daily maintenance, small repairs, and minor construction. To meet our objectives, we sent questionnaires to 571 military bases and major commands worldwide; 93 percent of them responded. We visited 35 bases and commands nationwide to interview experts and DOD maintenance and repair personnel.

RESULTS IN BRIEF

DOD does not have a comprehensive strategy for managing its maintenance and repair needs. Each service sets its own standards for maintaining its property, using different methods to assess property conditions, prioritize repairs, and allocate funds for maintenance and repairs. Moreover, our questionnaire results show that bases and major commands within the services sometimes apply their own assessment criteria inconsistently. In addition, the services have different maintenance funding goals through 2005, and they plan to fund repairs below the levels required to keep most facilities at current conditions. Therefore, the backlog of repairs, some rated "critical," will increase. The amount of backlog varies by service.

We found a number of promising practices in the maintenance area among nonmilitary entities, such as (1) using a single system for counting the number and type of facilities and for assessing facility conditions and (2) ranking budget allocations for all facilities using common criteria, including physical condition, relevance of facilities to the mission, and life-cycle costing and budgeting.

However, adoption of these practices by the services is hampered by such barriers as (1) the use of real property maintenance funds for other operations and maintenance purposes and (2) incomplete and noncomparable data on maintenance and repair, which prevents DOD and the Congress from making meaningful comparisons of the services' requests for funding repairs.

To improve management of military real property maintenance, we recommended that the Secretary of Defense provide funding for a comprehensive strategic real property maintenance plan. We also recommended that DOD develop a cross-service, integrated strategy to comprehensively address real property maintenance issues. In February 2000, DOD briefed us on the steps it is taking to improve its real property management. First, DOD has formed an Installations Policy Board to provide DOD-wide policy and guidance for installations and to advocate for adequate funding for them. Second, DOD states that it is developing a comprehensive Facilities Strategic Plan. Third, in January 2000, DOD officials visited the Lawrence Livermore National Laboratory and the Capital Needs Analysis Center of the Church of Latter-day Saints (organizations we had identified as examples of best practices for managing real property) to determine whether DOD could adopt some of their practices. Although we have not evaluated the extent to which these initiatives will be effective in redressing the problems that we identified, we believe they demonstrate a positive commitment to change.

BACKGROUND

The military services are collectively responsible for maintaining more real property than any other entity in the world—more than 320,000 buildings (with about 2.1 billion square feet), tens of thousands of miles of roads, and 1.1 million square yards of pavement (such as runways). The replacement value of this property is more than \$500 billion. The annual maintenance and repair budget for these facilities has averaged about \$5 billion for each of the past 4 years (fiscal years 1996-1999). Separate accounts are used to fund maintenance and repair of family housing, many industrial-related facilities, and many military medical facilities.

Congressional concerns about DOD's and the services' management of real property maintenance are long-standing, going back to the 1950s. In the past decade, these concerns have focused in part on the services' reported repair backlog, which increased 64 percent from 1992 through 1998, despite the Congress' net addition of more than \$800 million to the services' maintenance accounts during this period to try to eliminate the backlog. In addition, to address maintenance issues comprehensively, the Congress provided DOD \$50 million in 1992 to pilot test a common system to assess the condition of facilities. The system was to use common standards in order to provide DOD with a single set of measures to assess and compare the maintenance needs of all service facilities and to make resource allocations on the basis of those needs. However, the services rejected the system, citing the estimated cost of

implementing it. Currently, each service independently assesses facility conditions annually and estimates the costs of required maintenance repairs.

DOD LACKS A COMPREHENSIVE MAINTENANCE STRATEGY AND A UNIFORM SYSTEM FOR DETERMINING THE URGENCY OF REPAIRS

DOD does not have a comprehensive management strategy for maintaining the services' real property. Although DOD had funded development of a strategic maintenance plan in its fiscal year 1999 budget, it shifted the funding to other priorities in early 1999. Thus, the individual services continue to set their own standards for maintaining property and to use different methods to assess property conditions. Even within services, our questionnaire results showed that application of assessment criteria may differ among bases and commands. In addition, the services have different goals for funding maintenance and repairs. Although these goals vary, all of them are below the level required to prevent increases in the backlog of repairs.

Services Use Different Rating Systems and Apply Them Inconsistently

DOD does not have common criteria by which the services are to rate the condition of their facilities with the purpose of prioritizing repair needs and allocating resources. Instead, each service has its own criteria for assessing the condition of its properties and the urgency of repairs. As a result of the differences among the services' systems, a facility rated as "satisfactory" by one

service could be rated as "unsatisfactory" by another, an inconsistency which makes it difficult for DOD or the Congress to prioritize requests for maintenance funding among the services. We also found that bases within the same service sometimes apply their own rating criteria inconsistently.

In addition, bases lack procedures to ensure that assessments of facility conditions are valid and reliable; that is, that they actually reflect the facilities' physical conditions. Fifty-five percent of responding bases indicated that they had no formal standardized procedures to determine the reliability of inspectors' ratings.

Service Funding Plans May Lead to Increase in Backlogged Repairs

DOD's 1999 planning guidance does not specify any funding level or goals for the maintenance of property, other than stating that the services are to fund maintenance at a level they consider adequate to execute missions. DOD told us that the 1999 language retreats from guidance provided in 1996, which directed the services to provide sufficient funding to reverse deterioration of facilities and to improve their effectiveness.

As of October 1999, the services were projecting increases in their repair backlogs because they planned to fund maintenance and repair below identified needs over the next several years. For example, the Air Force has planned no money at all for repair projects until fiscal year 2003 (although it plans to spend

some funds on emergency minor repairs and other forms of what it terms preventive maintenance). The total reported backlog of needed repairs increased from \$8.9 to \$14.6 billion (64 percent in nominal terms) from 1992 through 1998.³

The services rate the urgency of their backlogs differently, and in the absence of a single rating system, it is difficult to determine how urgent these needs truly are.⁴ Therefore, simply providing additional funding will not ensure that the most important deficiencies are funded first or that buildings with repair needs exceeding a large percentage of their replacement value are not demolished instead (saving money in the long run). In the absence of a common rating system, neither DOD nor the services can meaningfully rank the services' maintenance and repair funding requests. Nor can they be assured that if more funds were provided that they would be targeted to those facilities that are both needed to carry out critical missions and in greatest need of repair.

PROMISING PRACTICES IN FACILITIES MANAGEMENT BY NONMILITARY ENTITIES

³A contributing cause of this increased backlog may be, as we reported in 1997, that total real property maintenance spending decreased 38 percent during fiscal years 1987-96, while the services reduced the square footage they maintained only about 10 percent during the same period.

⁴The Air Force reported a total of \$7.4 billion in needed repairs for fiscal year 1998, of which \$355 million was rated critical. The Navy reported a total of \$6.1 billion in backlog, of which \$2.87 billion was rated critical.

In interviews with nonmilitary entities and maintenance experts, we were told of a number of promising practices in the repair and maintenance area, including

- using a single system for counting the number and type of facilities;
- having a single, engineering-based system for assessing facility conditions by adequately trained personnel;
- prioritizing budget allocations based on physical condition, relevance of facilities to the mission, and life-cycle costing and budgeting;⁵
- using a single property maintenance budget that is controlled by a central office with the power to shift resources to facilities in the greatest need;
- creating incentives to demolish or vacate excess space;
- restricting the use of maintenance funds to maintenance purposes; and
- allowing maintenance management offices to charge tenant entities an annual maintenance fee, based on square feet used, to ensure adequate funding for facilities and to create an incentive for space conservation.

Two nonmilitary organizations—the Capital Needs Analysis Center of the Church of Latter-day Saints at Brigham Young University (Provo, Utah) and Lawrence Livermore National Laboratory (Livermore, California)—have facility management systems that collectively use all of these practices. Both report these practices enable them to maintain needed facilities at agreed upon standard levels, stabilize repair backlogs (with supplemental funding to fix

⁵Life-cycle facility management is a methodology aimed at maximizing cost-effectiveness. As described by the National Research Council, building "service life can be optimized through adequate and timely maintenance and repairs." National Research Council, Stewardship of Federal Facilities (Washington, D.C.: National Academy Press, Oct. 1998), p. 12.

existing backlogs), accurately predict future maintenance needs, satisfy customers that maintenance funds are allocated fairly and based on actual need, and prepare credible budget requests. Similarly, a military organization—the U.S. Army Health Facility Planning Agency—is implementing a life-cycle investment strategy that it expects to reduce major repair costs by 50 percent and to cut programming time from years to months.

OBSTACLES TO EFFECTIVE IMPLEMENTATION OF PROMISING PRACTICES

Adoption of these promising practices by the services is hampered by several barriers. First, DOD lacks basic data that would permit it to compare how much the services spend per square foot on barracks or other common buildings, such as administrative offices, classrooms, and warehouses. While the Army annually collects per-square-foot spending data for more than 100 types of structures, we did not find comparable data collected by the other services.

Second, repair and maintenance funds are frequently used for other purposes, such as unfunded emergency military overseas operations, which reduces the amount of funding available for maintenance and creates budgeting and contracting instability.

Third, multiple accounts are used to pay for maintenance and repair: The Army pays for maintenance from 27 different accounts, and the Center for Naval Analyses found that the Navy had 110 different accounts for maintenance use in 1995. As a result, funding for real property maintenance is fragmented, creating problems in determining how much is actually being spent.

Fourth, the services have different coding schemes to record the number and type of their facilities; as a result, this information cannot be compared across the services. Without valid, reliable data, DOD and the services cannot adequately evaluate the cost-effectiveness of real property management or even know how much is being spent on maintenance and repair.

Fifth, there are no DOD-wide space standards to determine whether a service is using much more space per worker than other services for similar functions. Common standards are useful in managing space utilization and controlling costs, since less space use reduces maintenance needs. For example, the Army allocates 162 square feet per administrative worker but the Navy and the Marines allocate 110 to 150 square feet, depending on a worker's grade level. The Army uses its standards to determine whether more space than required per worker is being used at bases, to help set maintenance budgets. Although some facilities will always be service-unique (e.g., nuclear submarine repair facilities, intercontinental ballistic missile silos), many (such as barracks, standard

classrooms, administrative space, and family housing) are common across the services.

RECOMMENDATIONS MADE TO IMPROVE REAL PROPERTY MANAGEMENT

On the basis of our review, we recommended in our September 1999 report that the Secretary of Defense improve DOD's management of repair and maintenance activities. Specifically, we recommended that DOD fund development of a DOD strategic maintenance plan, as had been originally provided in 1999. We also recommended that DOD develop a cross-service integrated strategy (in close coordination and consultation with the heads of facilities of each service) to comprehensively address repair and maintenance issues. The strategy should provide, at a minimum, for

- uniform standards that set the minimum condition in which military facilities are to be maintained and standardized condition assessment criteria;
- standard criteria by which the services are to allocate space for different types of facilities (e.g., barracks, classrooms, administrative buildings) and against which maintenance funding allocations will be measured;
- standard criteria for counting the number and type of facilities;
- computerized, on-line inventory and cost databases that permit meaningful comparisons, across and within the services, of repair and maintenance

spending by type, size, and location of facility and repair and maintenance activity, including direct data access by DOD headquarters;

- standard cost accounting methods by which the services will record and track their maintenance expenditures so that they and DOD know how much is being spent, where it is being spent, and on what type of facility or repair activity it is being spent;
- the identification of priorities for the services to use to explicitly link needs assessments with resource allocations and tracking systems that show whether or not identified high priority needs are allocated the funds intended for them by the Congress;
- mandated training standards (curriculum and hours) for all those involved in condition assessment and ratings of repair urgency; and
- a comprehensive, valid, engineering-based assessment system that incorporates life-cycle planning into facilities maintenance based on the well-developed methods already used by nonmilitary entities.

DOD agreed with most of our recommendations. However, DOD disagreed with the need to establish standard cost accounting methods because it would impose too great a level of detail, and it disagreed with the need to develop mandated training standards because DOD is not certain such training is needed. We continue to believe these measures are needed to provide DOD with adequate oversight and consistency in prioritizing needs.

DOD'S INITIATIVES IN RESPONSE TO GAO

As I stated earlier, DOD has begun a number of management initiatives to better manage real property in response to our findings and recommendations. The Deputy Under Secretary of Defense (Installations) briefed us on these on February 7, 2000. Although we have not evaluated the success of these efforts, which are just beginning, we believe they demonstrate a commitment to positive change. The Deputy Under Secretary stated that DOD has undertaken two broad initiatives to address the lack of an overall management strategy. First, DOD has established an Installations Policy Board to develop Department-wide guidance and policy affecting installations as well as to advocate during the budget process for properly resourcing installations and facilities. Second, DOD also told us that it is taking steps to develop a Facilities Strategic Plan to address the need for a comprehensive management strategy. In addition, in response to our report findings, the Deputy Under Secretary's staff made field site visits in January 2000 to the Capital Needs Analysis Center at Brigham Young University and to the Lawrence Livermore National Laboratory, which we had cited as examples of best practices in property management. The object was to learn more about how these entities manage their property and to determine what could be adopted by the services and DOD.

DOD also noted that prior to our report, the services and DOD had begun efforts to develop metrics that tie facility condition and its effect on mission accomplishment into an installation readiness reporting system. DOD stated it is developing a facilities sustainment model to more accurately estimate the effects of funding levels on property condition.

In sum, Mr. Chairman, DOD has undertaken a number of initiatives that are in direct response to the findings and recommendations we made in our report and previous testimony. Although we have not evaluated whether these will be successful, we believe that they show a management commitment to addressing long-standing problems.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions you may have.

Contacts and Acknowledgments

For future contacts regarding this testimony, please contact Kwai-Cheung Chan at (202) 512-3092. Individuals making key contributions to this testimony included Dr. Jonathan R. Tumin and Dr. Sushil K. Sharma.

(713062)

**QUESTIONS AND ANSWERS SUBMITTED FOR THE
RECORD**

MARCH 1, 2000

QUESTIONS SUBMITTED BY MR. BATEMAN

Mr. BATEMAN. **BACKGROUND:** GAO noted in its opening statement that before 1996, base operations and real property maintenance were not separately identified. Since then, the services have budgeted and obligated money to each of these areas separately. Real property maintenance funds are used to maintain and repair buildings, structures, warehouses, roadways, runways, railway tracks and utility plants. Base operations funding is used for services such as utilities, base communications, snow removal, security, and morale, welfare, and recreations activities.

What brought about this change in the military services' budget structure in 1996?

Mr. CURTIN. A Department of Defense program decision memorandum dated October 27, 1994, directed the Under Secretary of Defense (Comptroller) to lead a study to develop alternative budget structures and reporting methods for the operations and maintenance (O&M) appropriations. The objective was to determine if changes should be made to improve visibility into planning, programming, and execution. DOD considered real property maintenance funded through O&M significant not only in dollar terms (\$5.1 billion in FY 1996) but also in terms of the quality of life of DOD personnel, and therefore personnel morale and readiness. Although real property maintenance was separately identified in the budget structure for the military services budget estimate submission it was merged with base operations in the President's budget request. The merger created a base support O&M program that was nearly 19% of the O&M budget in fiscal year 1996. Thus, to improve visibility of both real property maintenance and base operations the study recommended separate identity in the O&M budget structure for these two areas.

Mr. BATEMAN. **BACKGROUND:** GAO noted in its testimony that during fiscal years 1996 through 1999, the services' reported obligations were \$2.7 billion (4.5 percent) more for base operations and real property maintenance than the initial congressional designation of \$61.2 billion. GAO identified most of the increase as going toward base operations.

Which service has the greatest concentration of this movement and has the trend to move funds into base operations decreased or increased?

Mr. CURTIN. During fiscal year 1996 through 1999, of all the services, the Army had the greatest movement of operation and maintenance funds, totaling over \$1.2 billion, into base operations. Every year during this period the Army moved funds into base operations. While the trend varied the Army moved the most funds into base operations in fiscal year 1996, about \$502 million, and the least funds in fiscal year 1998, about \$71 million. However, the Air Force consistently moved over \$900 million to base operations during the same period. The Air Force moved the greatest amount into base operations in fiscal year 1999, over \$519 million, and the least amount in fiscal year 1997, over \$72 million.

Mr. BATEMAN. **BACKGROUND:** GAO noted in its statement that it is not possible to trace the origins of all funds moved into or out of budget subactivities, such as unit training. However, GAO goes on to say that in fiscal years 1997 and 1998 the Army moved about \$641 million from unit training to real property maintenance and base operations.

If this movement is not traceable, how did GAO identify that \$641 million was moved from unit training to real property maintenance?

Mr. CURTIN. DOD is required to provide detailed data on budget movements for high-priority readiness-related budget subactivities. These reports describe movements of funds for some of the subactivities designated as high-priority by Congress and must include the total amounts moved into and out of these subactivities and an explanation of the reasons for the movement. It was through these reports that we were able to identify the \$641 million moved from training to real property maintenance and base operations by the Army and \$35 million moved from training to real property maintenance and base operations by the Air Force.

Mr. BATEMAN. How much of the \$641 million went towards real property maintenance and how much towards base operations?

Mr. CURTIN. Of the \$641 million the Army moved, \$519 million (\$112 million in fiscal year 1998, \$407 million in fiscal year 1997) was for base operations while \$122

million was for real property maintenance. Of the \$35 million the Air Force moved, all was for real property maintenance.

Mr. BATEMAN. **BACKGROUND:** The GAO conducted a survey of 517 bases and major commands. The survey pointed out that major commands only requested funding for approximately 20 percent of the known RPM needs in fiscal year 1997. These same commands were actually funded at a rate even lower than the requested 20 percent of need.

Why did the major commands request so little of the required funding?

Mr. CURTIN. As we reported in September 1999, according to DOD headquarters facility management officials of each service, funding real property maintenance is not their services' first priority. An Army official described it as the last of four priorities. The major commands and bases understand that this is the culture of real property maintenance and have acted accordingly—as reflected in the data reported to us by the commands and the bases.

Mr. BATEMAN. Do you expect that the same practice goes on today?

Mr. CURTIN. DOD's 1999 planning guidance does not specify any funding level or goals for the maintenance of property, other than stating that the services are to fund maintenance at a level they consider adequate to execute missions. DOD told us that the 1999 language retreats from guidance provided in 1996, which directed the services to provide sufficient funding to reverse deterioration of facilities and to improve their effectiveness.

Mr. BATEMAN. Does this indicate that perhaps the backlog is, in fact, greater than what the services or DOD now thinks it to be?

Mr. CURTIN. As of October 1999, the services were projecting increases in their repair backlogs because they planned to fund maintenance and repair below identified needs over the next several years. For example, the Air Force has planned no money at all for repair projects until fiscal year 2003 (although it plans to spend some funds on emergency minor repairs and other forms of what it terms preventive maintenance). The services rate the urgency of their backlogs differently, and in the absence of a single rating system, it is difficult to determine how urgent these needs truly are. Therefore, simply providing additional funding will not ensure that the most important deficiencies are funded first or that buildings with repair needs exceeding a large percentage of their replacement value are not demolished instead (saving money in the long run).

Mr. BATEMAN. **BACKGROUND:** As a result of the work that GAO and others have done in researching RPM and the problem of the continued growth in the backlog in maintenance, the GAO has identified a number of things that could be done to manage the problem better.

What are the top two or three things that DOD and/or the services could do to help get control of RPM and the continuous growth of the backlog?

Mr. CURTIN. As we reported in September 1999,¹ DOD does not have a comprehensive strategy for managing its maintenance and repair needs. Rather, each service sets its own standards for maintaining infrastructure. Without standard assessment criteria, DOD cannot compare maintenance costs or facility conditions across the services. This hampers the development of a sound strategy for managing the upkeep of the military's infrastructure. Further, the services cannot ensure that their ratings of facilities' conditions are valid or reliable either at individual bases or within each of the services because facility assessors do not apply their service's criteria consistently. Thus, DOD's strategy should include:

- Uniform standards that set the minimum condition in which military facilities are to be maintained and standardized condition assessment criteria;
- Standard criteria by which the services are to allocate space for different types of facilities, (e.g. barracks, classrooms, administrative buildings) and against which RPM funding allocations will be measured;
- Standard criteria for inventorying DOD and service property (except for relatively few service-unique facilities).

USE OF TRAINING FUNDS TO PAY FOR BASE OPERATIONS AND RPM

Mr. BATEMAN. **BACKGROUND:** The military services' principal source of funding for RPM and base operations is their O&M appropriations, and the Services have flexibility in using those funds. Congress is concerned about moving funds from unit training to RPM and base ops and the impact on readiness.

¹*Military Infrastructure: Real Property Management Needs Improvement* (GAO/NSIAD-99-1000, Sept. 7, 1999).

Who decides to use O&M funds, such as those for unit training, to pay for base operations or real property maintenance and what procedures are in place to monitor those decisions?

Secretary YIM. Normally, the installation commander or the major command commander makes the decision to migrate unit training funds to base operations or real property maintenance (RPM) accounts, or conversely from base operations and RPM to unit training. These commanders must balance priorities and requirements during the course of the fiscal year to ensure continued unit readiness, thus they require the flexibility to transfer funds between accounts where and when necessary. These commanders are in the best position to maximize the benefit from available funding in meeting unit training and installation mission needs. Congress and DOD have established guidelines that enable any transfer of funds within readiness accounts to be tracked at the Service headquarters level. Proposed transfers of funds between budget activities in excess of \$15 million are subject to Congressional approval. This requires written notification to the Congress for the cumulative value of transfers in excess of \$15 million into or out of operating tempo subactivity groups (SAGs). A Re-baselining Report is sent to Congress in February which identifies any Congressional and Service adjustments (transfers) made in conjunction with release of the O&M appropriation to the Service Major Commands. A monthly report is provided by the Defense Finance and Accounting System (DFAS) to Congress that shows current obligation data and any transfer of funding between SAGs. Reports are also provided to Congress for any major reprogramming actions that require approval.

MOVEMENT OF FUNDS FROM UNIT TRAINING TO PAY FOR REAL PROPERTY AND BASE OPERATIONS

Mr. BATEMAN. Who decides to use O&M funds, such as those for unit training, to pay for base operations or real property maintenance and what procedures are in place to monitor those decisions?

General VAN ANTWERP. Generally the field troop unit commander, who is frequently also the installation commander, or the major command (MACOM) commander, makes the decisions on migrating O&M funds, such as unit training funds, to other purposes. These commanders must balance priorities during the course of the fiscal year to ensure continued unit readiness, thus they require some flexibility to transfer funds between accounts when necessary. These commanders are in the best position to maximize the benefit from available funding in meeting unit training needs and installation mission needs.

Congress and DOD have established guidelines that enable any transfer of funds within readiness accounts to be tracked at the Headquarters, Department of the Army (HQDA) level. Tools used include:

- Restrictions: Proposed transfers of funds between budget activities in excess of \$15 million are subject to Congressional approval. In addition, transfers in excess of \$15 million into or out of the Operations and Maintenance, Army (OMA) appropriation Depot Maintenance subactivity group (SAG) are also subject to this rule. Written notification to Congress for the cumulative value of transfers in excess of \$15 million into or out of operating tempo (OPTEMPO) SAGs is required. The conventional ammunition account has a statutory floor of \$355 million.
- Rebaselining Report: Report sent to Congress in February which identifies any Congressional and HQDA adjustments (transfers) made in conjunction with release of the OMA appropriation to the MACOMs.
- 1002 report: Monthly report provided by Defense Finance and Accounting System (DFAS) to Congress that provides current obligation data and shows any transfer of funding between SAGs.
- 1415s Provided to Congress for the major reprogramming actions that require approval.

Admiral SMITH. O&M funds used for base operating support (BOS) and real property maintenance (RPM) are managed by Navy claimant commands per the guidelines of their submitted budgets and funding authorizations. Within a given budget activity, decisions to move funds between sub activity groups, including BOS and RPM, are made by the claimant. However, realignments between budget activities and proposed increases or decreases to Congressional special interest items require advance approval from Navy Comptroller staff, which monitors and controls such actions via internal Navy tracking procedures. In a few cases, Congressional approval is also required. As funds are moved between programs, Navy BOS and RPM have historically been used as a source to augment unit training and operational requirements, rather than the recipient of such transfers.

General ROBBINS. The AF maintains a delicate balance between mission and support areas. In order to maintain this daily balance, commanders are required to continually evaluate funding required for mission sustainment and support areas. Additionally, they must be allowed to ultimately determine when funds budgeted for one purpose are used for another such as real property maintenance or support of base operations. Their evaluation is based upon a close and immediate knowledge of the competing requirements, the current availability of O&M funding within their units, and the impact on the accounts to be offset. As the data which comprised the input for the annual President's Budget is finalized almost a year in advance of actual appropriation by Congress, it is impossible to forecast with 100 percent accuracy the actual daily requirements to which a local commander must react. The commander is entrusted with the responsibility to perform his Air Force mission and is expected to take actions necessary to get the job done. Given the funding constraints, the demands placed upon the Air Force, and the age of our equipment and facilities, funding flexibility in the O&M account is absolutely essential. Should the financial ability to react to changing circumstances be further curtailed by more severely constraining our commanders' ability to react to our ever-changing environment, the overall mission readiness of the Air Force will be adversely impacted.

General MASHBURN. The Marine Corps historically has not moved funds from unit training to real property maintenance or base operations. Unit training is as close as the Marine Corps gets to having an "untouchable program." Since operational readiness is the cornerstone of the Marine Corps' ability to be the nation's "9-1-1 Force," operating forces funding, of which unit training falls under, is a top priority.

Despite executing unit training programs as budgeted, training is sometimes not at the level hoped for and readiness is not at 100 percent. The Marine Corps tracks readiness using our Status of Resources and Training System (SORTS) along with the Global On-line Marine Edit and Report System (GOMERS). These reports provide a macro-overview of a unit's personnel manning, equipment and supply fill, equipment readiness and training as assessed by the unit commander. Readiness information is then sent to the Pentagon and is accessible at Headquarters Marine Corps (HQMC).

Last, Headquarters Marine Corps trusts and empowers the fleet commanders to move funds from one program to another to meet the operational requirements of their command within threshold limits. The commanders at Marine Forces Atlantic, Pacific and Reserve are closer to problems as they arise, and they can identify organic unit trends before HQMC can. The Marine Corps is very attentive to the needs of its Operational Commanders, as that is where we interrelate with the CINCs and execute contingencies, exercises and operations.

Mr. BATEMAN. How do the services determine what the impact on readiness will be if they move funds from unit training to real property maintenance or base operations? More specifically, who tracks the readiness implications of this movement?

Secretary YIM. Realignments between budget activities and proposed increases or decreases to Congressional special interest items require advance approval from the Services' Comptroller staffs, which monitor and control such actions via internal tracking procedures. The impacts of these decisions are tracked at the Service headquarters level using annual readiness and execution reports.

General VAN ANTWERP. Commanders assess their unit's current readiness level and make training and resourcing decisions based upon their unique situation. The commander in the field is in the best position with the perspective to make these decisions. At a macro level, readiness is monitored using the Unit Status Report (USR), which is submitted monthly to Headquarters, Department of the Army (HQDA). HQDA relies on the commanders' comments on the USR to identify any problems relating to training, training enablers, real property maintenance or base operations that would adversely affect readiness. HQDA works with the major commands to resolve resourcing issues that impact unit readiness.

Admiral SMITH. As noted in the recent March 2000, GAO Report, *Analysis of Real Property Maintenance and Base Operations Fund Movements*, (GAO/NSIAD-00-87, February 29, 2000) the Navy has consistently moved funds into unit training, increasing them by \$1.9 billion from FY94 to FY99. However, as indicated in the response to question 1 above, realignments between budget activities and proposed increases or decreases to Congressional special interest items require advance approval from Navy Comptroller staff, which monitors and controls such actions via internal Navy tracking procedures. The impacts of these decisions are tracked at the headquarters level using our annual readiness and execution reports.

General ROBBINS. Commanders are required to continuously assess the readiness of their units, however readiness is more than just flying training. It encompasses a myriad of activities including maintaining structurally sound facilities in which

to perform maintenance, training and other support functions. In addition, unit readiness requires assigned personnel to be fed, housed, paid and otherwise supported so they can perform their mission. Perhaps the most difficult decision expected of any commander is to maintain the delicate balance between unit training and the essential functions supporting that training and military readiness. The Air Force delegates the authority to move funds within budget activities to commanders to ensure the decision is made by the person closest to the problems.

General MASHBURN. The Marine Corps historically has not moved funds from unit training to real property maintenance or base operations. Unit training programs are as close the Marine Corps gets to having an “untouchable program.” Since operational readiness is the cornerstone of the Marine Corps’ ability to be the nation’s “9–1–1 Force,” operating forces funding, of which unit training falls under, is a top priority.

Despite executing unit training programs as budgeted, training is sometimes not at the level hoped for and readiness is not at 100 percent. The Marine Corps tracks readiness using our Status of Resources and Training System (SORTS) along with the Global On-line Marine Edit and Report System (GOMERS). These reports provide a macro-overview of a unit’s personnel manning, equipment and supply fill, equipment readiness and training as assessed by the unit commander. Readiness information is then sent to the Pentagon and is accessible at Headquarters Marine Corps (HQMC).

Last, Headquarters Marine Corps trusts and empowers the fleet commanders to move funds from one program to another to meet the operational requirements of their command within threshold limits. The commanders at Marine Forces Atlantic, Pacific and Reserve are closer to problems as they arise, and they can identify organic unit trends before HQMC can. The Marine Corps is very attentive to the needs of its Operational Commanders, as that is where we interrelate with the CINCs and execute contingencies, exercises and operations.

FUNDING FOR FACILITIES STRATEGIC PLAN

Mr. BATEMAN. **BACKGROUND:** In a May 1997 GAO Report—*Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operation Cost*, (GAO/NSIAD-97-125, May 13, 1997)—GAO found that DOD and the services did not have complete, reliable information on the costs associated with either maintaining their current facilities infrastructure or with infrastructure reduction options. Such information is needed to develop a department-wide strategic plan that considers difficult infrastructure options to meet the requirements of the Government Performance and Results Act (Public Law 103-62) which requires federal agencies to develop agency wide strategic plans. Further, such information is critical to meet the requirements for more complete disclosure of the costs, associated with facilities’ deferred maintenance and demolition in financial statements, called for by the Chief Financial Officers’ Act of 1990.

To collaborate, in another GAO Report—*Military Infrastructure: Real Property Management Needs Improvement*, (GAO/NSIAD-99-100, September 7, 1999)—GAO again noted that DOD does not have a comprehensive strategy for maintaining the services’ infrastructure. Rather, each service sets its own standards for maintaining infrastructure. As a result, the services differ in the way they rate property conditions, prioritize repairs, and allocate resources. For example, a barracks rated “satisfactory” by one service may be rated as “unsatisfactory” by another. GAO reported that although DOD funded development of a strategic maintenance plan in its fiscal year 1999 budget, it shifted the funding to other priorities in early 1999.

What were the other priorities that required the funding planned for the development of a strategic maintenance plan?

Secretary YIM. The draft DOD Facilities Strategic Plan was not formally published due to constrained funding in the OSD studies program. With regard to facility maintenance, specifically, the OSD studies program did fund the research to support the Facilities Sustainment Model, which is a major element of the overall strategic plan.

General VAN ANTWERP. The draft DOD Facilities Strategic Plan, which was put together by a cross-Department Working Group two years ago, has not been formally published due to a need to update the plan and to constrained funding in the OSD studies program. Before publishing the plan, it needs to be updated as a result of initiatives we’ve taken based on the draft plan and to incorporate recommendations from recent GAO reports on Real Property Management.

Admiral SMITH. The draft DOD Facilities Strategic Plan has not been formally published due to constrained funding in the OSD studies program.

General ROBBINS. The draft DOD Facilities Strategic Plan has not been published due to constrained funding in the OSD studies program. However, OSD is pressing ahead with many of the initiatives developed by the OSD-led planning group. We fully support their efforts on the Plan.

General MASHBURN. The strategic plan was being developed by DOD with the participation of the services. The draft DOD Facilities Strategic Plan has not been formally published due to constrained funding in the OSD studies program. I defer to DOD concerning the other requirements.

STATUS OF FACILITIES STRATEGIC PLAN

Mr. BATEMAN. **BACKGROUND:** In a May 1997 GAO Report—*Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operation Cost*, (GAO/NSIAD-97-125, May 13, 1997)—GAO found that DOD and the services did not have complete, reliable information on the costs associated with either maintaining their current facilities infrastructure or with infrastructure reduction options. Such information is needed to develop a department-wide strategic plan that considers difficult infrastructure options to meet the requirements of the Government Performance and Results Act (Public Law 103-62) which requires federal agencies to develop agency wide strategic plans. Further, such information is critical to meet the requirements for more complete disclosure of the costs, associated with facilities' deferred maintenance and demolition in financial statements, called for by the Chief Financial Officers' Act of 1990.

To collaborate, in another GAO Report—*Military Infrastructure: Real Property Management Needs Improvement*, (GAO/NSIAD-99-100, September 7, 1999)—GAO again noted that DOD does not have a comprehensive strategy for maintaining the services' infrastructure. Rather, each service sets its own standards for maintaining infrastructure. As a result, the services differ in the way they rate property conditions, prioritize repairs, and allocate resources. For example, a barracks rated "satisfactory" by one service may be rated as "unsatisfactory" by another. GAO reported that although DOD funded development of a strategic maintenance plan in its fiscal year 1999 budget, it shifted the funding to other priorities in early 1999.

What is the current status of development of a strategic plan?

Secretary YIM. Only formal publishing of the plan is on hold. OSD and the Services have been actively working over the last two years to implement several of the initiatives in the draft plan. For example, the draft plan called for an initiative to "better define RPM requirements" and to "develop better asset management tools" which lead directly to the Facilities Sustainment Model (FSM). The draft plan also called for things like the Facilities Aging Model, two more rounds of BRAC, and better utilization (e.g. joint use). While we have not formally published the plan, we are working to implement the high priority initiatives, and we have established the Installations Policy Board (IPB) to oversee it.

General VAN ANTWERP. The current status is that formal publishing of the entire plan is on hold. OSD and the Services have been actively working over the last two years to implement several of the initiatives in the draft plan—for example, the draft plan called for an initiative to "better define RPM requirements" and to "develop better asset management tools"—which leads directly to the Facilities Sustainment Model (FSM). The draft plan also called for things like the Facilities Aging Model, two more rounds of BRAC, and better utilization (e.g. joint use). While we have not formally published the plan, we are working to implement the high priority initiatives, and we have established the Installations Policy Board (IPB) to oversee it.

Admiral SMITH. The current status is that formal publishing of the entire plan is on hold but OSD and the Services are working to implement several of the plan's initiatives, including an initiative to improve the facilities maintenance and repair programs via the Facilities Sustainment Model.

General ROBBINS. The current status is that formal publishing of the entire plan is on hold. We fully support DOD's efforts and have been actively supporting several initiatives in the draft plan. For example, we are pressing ahead on improvements to our Facilities Sustainment Model (FSM) and the Facilities Aging Model in support for the plan.

General MASHBURN. Formal publishing of the entire plan is on hold. However, OSD and the Services are working to implement several of the plan's initiatives, including one to improve facilities maintenance and repair programs via the Facilities Sustainment Model.

RPM BACKLOG AND PRIORITIZING RPM SPENDING

Mr. BATEMAN. **BACKGROUND:** In a GAO Report, *Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operation Costs*, (GAO/NSIAD-97-125), GAO stated that with the post-cold war drawdown, DOD facilities worldwide, as measured by square feet of space, were reduced by about 10 percent through BRAC rounds. During that same period, RPM funding was cut by an estimated 40 percent. This led to a backlog of M&R projects in the Services. In another GAO Report, *Military Infrastructure: Real Property Management Needs Improvement*, (GAO/NSIAD-99-100, Sep. 7, 1999), DOD estimated that the backlog had grown from about \$8.9 billion in 1992 to \$14.6 billion in 1998.

What are the Services' current estimates for the real property maintenance backlog? How do the services prioritize spending to address the most pressing or urgent, real property maintenance needs?

Secretary YIM. Backlog by itself is not a total indicator of the requirement for maintenance and repair funding in any one year since it does not address the need for annual sustainment funding. The backlog might be best understood as accumulated repair work (excluding non-repair work) resulting from constrained maintenance and repair funding in previous years. With this caveat, the reported numbers are:

Army: \$15.4 Billion
 Navy: \$2.8 Billion (critical backlog only)
 Air Force: \$4.3 Billion
 Marine Corps: \$717 Million

The Services generally leave it up to their major commands to distribute RPM funds to their installations. Their major command and installation commanders are at the highest level for prioritizing RPM requirements because they know their facility maintenance and repair requirements and how best to utilize the scarce RPM funding. Generally, they prioritize their spending to correct deficiencies that have the largest impact on mission readiness and that contribute to C3 or C4 ratings on the annual base readiness report.

General VAN ANTWERP. Sir, I would just say that right now in the Army, we are around \$3.50 psf, but that is for all the buildings. . . . a new building could be less. . . . based on the private sector . . . it is somewhere in the \$5 to \$6 range per square foot. It is very dependent on the type of building . . .

It does cost more to maintain an older facility vice a newer one. Based on "The Whitestone Building Maintenance and Repair Cost Reference 1999," it costs about 60% more to maintain an older facility. Using facilities sustainment costs from "Whitestone", a 2-story office building that's 1-10 years old would cost an average \$1.03 per square foot to sustain (maintain) annually. This price does not include repairs and operating services such as washing floors and cutting grass. That same facility, when it is adequately sustained over its life, would cost an average \$1.71 per square foot when it is 41-50 years old. For a 50-room dormitory, it's \$2.18 for a newer building vice \$3.50 for an older one. Now that's a powerful argument for recapitalizing—that means our average 40+ year old physical plant is costing us 60% more to sustain than it would if we could drive the average age down toward 10 years or so. If we have a \$5 billion RPM requirement now, we'd have a \$3 billion requirement then.

The services generally leave it up to their major commands to distribute sustainment (RPM) funds to their installations. Their major command and installation commanders are at the highest level for prioritizing RPM requirements because they know their facility maintenance and repair requirements and how best to utilize the scarce RPM funding. Generally, they prioritize their spending to correct deficiencies that have the largest impact on mission readiness and that contribute to C3 or C4 ratings on the annual base readiness report.

Admiral SMITH. The Navy's critical RPM backlog at the end of FY99 was \$2.8 billion.

Major claimants and regional commanders prioritize their special projects program to correct deficiencies that have the largest impact on mission readiness and that contribute, to C3 or C4 ratings on the annual base readiness report. For deficiencies that are below special project scope, each installation prioritizes their unfunded critical deficiencies in their Maintenance Action Plan, which provides the execution plan for the coming fiscal year.

General ROBBINS. The Air Force current total force backlog of real property maintenance is \$4.3B (FY01), which is based on those requirements with the greatest mission impact (Critical and degraded) which remain unfunded at the end of the fiscal year. Real property maintenance (RPM) is funded at what we call the Preventive Maintenance Level (PML) to accomplish only the day-to-day maintenance re-

quired to sustain real property facilities and infrastructure. For affordability considerations the Air Force calculates its PML funding level at one percent of our plant replacement value. We also have a tool we call the Facility Investment Metric (FIM) which stratifies facility requirements based on mission impact. Installation and Major Command Commanders must make the difficult decision to fund PML work while deferring FIM identified projects or fund the most critical FIM projects while deferring maintenance work.

General MASHBURN. The projected real property maintenance backlogs for the years 2000, 2001 and 2002 are \$685 million, \$666 million, and \$665 million respectively.

The Marine Corps has two complementary methods for prioritizing real property needs. First, it provides over half of its real property maintenance funding directly to the base commander to use on day-to-day maintenance requirements. These funds pay for salaries, materials and contracts required to take care of recurring and emergency maintenance, along with small repair and minor construction contracts. The base commander is in the best position to select the small projects that need to be done to keep the base running.

Second, those projects costing over \$300,000 are field validated by representatives from Headquarters Marine Corps. These projects receive a rating score based on facility type and condition, cost savings and base priority. Headquarters then prioritizes projects Marine Corps wide and provides funding on a project by project basis to make sure the most urgent work is being done.

Finally, the process can now be checked using a mission readiness rating system. Using this system we can evaluate if the funds are being applied, at the individual base level, to the areas that show the lowest mission readiness.

BUDGET REQUESTS FOR OPERATING AND MAINTAINING BASES AND RELATED REAL PROPERTY

Mr. BATEMAN. Why is the Army not submitting realistic budget requests that would fully fund the costs for operating and maintaining bases and related real property?

General VAN ANTWERP. The Army works in a funding constrained environment. With each funding decision comes risk balanced against the benefits of funding one action over another. Headquarters, Department of the Army also recognizes the importance of facility condition on readiness and the need for more RPM funding. Therefore the Army future years development program (FYDP), as of President's Budget 2001, increases RPM over the FYDP for fiscal years 2001 through 2005 by ramping to 80% of requirement by fiscal year 2005. Because of the significance of the RPM shortfall, the Army also identified \$250 million, ranked number eight in the first band (Readiness) of unfunded priorities, should additional funds be made available for fiscal year 2001.

READINESS BALANCE

Mr. BATEMAN. How do Army commanders balance the increased readiness risk by decreasing the desired operating tempo requirements? Specifically, how is readiness affected by continually achieving less in operating tempo goals? What units are affected the most? Please be specific.

General VAN ANTWERP. Army commanders cannot change OPTEMPO requirements because they are based upon the Combined Arms Training Strategy (CATS). However, the commander does have the flexibility to make the decisions on where to take risk in a limited funding environment. Most of the funds migrated from OPTEMPO are used for unit training enablers, such as ranges, base operations (BASOPS) and real property maintenance (RPM). There are other alternatives that commanders use to manage risk that do not have a short-term adverse affect on readiness. For example, the commander can defer maintenance while maintaining the unit's equipment readiness rating. In the long term, deferred maintenance may be reflected in a lower equipment readiness rate. In summary, every unit is affected by its individual circumstances and the commander's decisions based upon the situation and resources available.

FUNDING SOURCE FOR REAL PROPERTY MAINTENANCE IN FY98

Mr. BATEMAN. **BACKGROUND:** The Air Force reported that it moved \$155 million into its operating forces real property maintenance budget subactivity but did not indicate where the funds came from in the fiscal year 1998 high-priority readiness-related transfer report. The Air Force did state, however, the funds were need-

ed for repairs to runways, maintenance hangers, utility systems, roofs and other real property assets.

What was the funding source for the \$155 million used for real property maintenance in fiscal year 1998?

Depending upon the budget subactivity that was the source for this funding, how was affected-subactivity impacted?

General ROBBINS. Funding was sourced by field commanders from various accounts which would suffer the least impact. Specific reporting systems do not track the specific movement of funds.

QUESTIONS SUBMITTED BY MR. ORTIZ

Mr. ORTIZ. Just one more question if nobody else has any questions. You know, I know that industry has a cost analysis system, more or less, how much it costs to maintain a square foot of building. And when you look at that, it may be a newer facility versus an older facility.

Could you give me the difference, more or less, how much it would cost to maintain a newer facility and an older facility?

Secretary YIM. I think that I will need to take that one for the record, because there will be a variety of different factors. So let me not just give you a cavalier attitude or answer. We will look at that more closely. That is what we tried to do with this costing handbook, is to try to get commercially benchmarked measurements on what it would cost to maintain both old and new facilities.

General VAN ANTWERP. Based on standard, commercial cost factors, a properly maintained building 40–50 years old costs about 60% more to sustain (via maintenance and repair) than a new building 1–10 years old. See the table:

ROUTINE MAINTENANCE AND REPAIR COSTS FOR NEW VERSUS OLD BUILDINGS (PER SQUARE FOOT) ¹

	1–10 Years Old	40–50 Years Old
Office Building (Two Stories)	\$1.03	\$1.71
Dormitory (50 Rooms)	\$2.18	\$3.50

¹ Analysis based on "Whitestone Building Maintenance and Repair Cost Reference 1999." Costs are for the Washington DC area.

QUESTIONS SUBMITTED BY MR. HANSEN

MICHAEL FIELD, DUGWAY PROVING GROUND

Mr. HANSEN. Everyone agrees Michael Field is critical and irreplaceable. No one stepped up to pay the costs of keeping it viable. If someone does not give me a better answer this year, I intend to take one of two actions, first transferring Michael Field to the Air Force and directing them to fund it, or directing the closure of Michael Field as a danger to anyone who might land there. Can you tell me why we should not take these drastic actions, and if not when the Army and Air Force will be solving this problem?

General VAN ANTWERP. Although the Air Force is the major user of Michael Field, the Army recognizes the need for Michael Field as a critical port of entry for the delivery of agents to support tri-service missions for DOD's Chemical and Biological Defense Program. NASA has also expressed interest in using the airfield. The estimated cost for repair of the field is \$19 million.

PREVENTIVE MAINTENANCE INSPECTIONS, AND TRACKING AND PRIORITIZING RPM REQUIREMENTS

Mr. HANSEN. The Vice Chiefs testified yesterday that they would not allow troops to sit in buildings that leak, but instead of the roof being replaced only the area that leaks would be fixed. . . . we schedule our tactical equipment to be inspected at regular intervals, a preventive maintenance checks and services to be exact, that is adhered to without fail. This helped to identify discrepancies before any sort of catastrophic failure occurs. If we had this same, or similar, system for infrastructure, I would imagine we would have more success in fixing problems before they become an emergency—this "finger in the dike" method used now is going to fail . . . can you comment on that and what it would take to get DOD on a system that allows all services to track and prioritize RPM requirements?

General VAN ANTWERP. The Department of Defense has already investigated the possibility of doing periodic detailed engineering inspections of facilities and concluded that it is a good idea, but unaffordable both in dollars and manpower. The Army implemented the Installation Status Report (ISR) which provides a non-technical facility user's inspection of the condition of a facility. This report provides an installation management tool from which the installation can develop maintenance and repair trends, potential maintenance and repair projects, and future RPM requirements. Only installation commanders can prioritize RPM requirements because only they can judge the severity of their RPM problems and the risks of doing one project over another. This is why Headquarters, Department of the Army does not designate or prioritize RPM projects. The ISR does provide a method at Army level to track the effectiveness of RPM funding by showing condition trends for facility types, but tracking specific maintenance and repair projects would be of little management value at Army headquarters level.

MICHAEL FIELD

Mr. HANSEN. The Air Force on the other hand is the primary user of the runway which is the primary divert field for all operations on the southern range of the UTTR. At least once a month an F-16 emergency diverts to Michael Field. The Air Force contributes nothing to the maintenance of this critical asset.

In addition to DOD this field is a critical NASA asset and serves as a Space shuttle divert field and more importantly as the test site of the first several flights of emerging technologies such as X-33.

Everyone agrees Michael is critical and irreplaceable. No one has stepped up to pay the costs of keeping it viable. If someone does not give me a better answer this year, I intend to take one of two actions, first transferring Michael Field to the Air Force and directing them to fund it, or directing the closure of Michael Field as a danger to anyone who might land there. Can any of you tell me why we should not take these drastic actions, and if not when the Army and Air Force will be solving this problem?

General ROBBINS. Michael Army Airfield (MAAF) is an Army facility and the Army is responsible for maintenance of this airfield. The Air Force does use the field as an F-16 emergency divert airfield from the Utah Test and Training Range (UTTR).

The Air Force recognizes that this issue must be addressed. A meeting was held 18 April 2000 to further discuss options and responsibilities for repairs at MAAF. Attendees included 388 FW/CCM, Dugway Proving Ground Commander, Utah ANG Commandant and MAAF's Commander and airfield manager. The results are currently being staffed through Air Combat Command. We will provide an update no later than 30 June 2000.

TRACK AND PRIORITIZE RPM REQUIREMENTS

Mr. HANSEN. The Vice Chiefs testified yesterday that they would not allow troops to sit in building that leak, but instead of the roof being replaced only the area that leaks would be fixed . . . we schedule our tactical equipment to be inspected at regular intervals, a preventive maintenance checks and services schedule to be exact, that is adhered to without fail. This helps to identify discrepancies before any sort of catastrophic failure occurs. If we had this same, or similar, system for infrastructure, I would imagine we would have more success in fixing problems before they become an emergency—this “finger in the dike” method used now is going to fail . . . can you comment on that and what it would take to get DOD on a system that allows all services to track and prioritize RPM requirements?

General ROBBINS. The Air Force is able to track and prioritize its facility requirements adequately now. Installations are capable of identifying their day-to-day maintenance requirements. In addition, our Facility Investment Metric (FIM) is used to stratify the most critical facility repair and minor construction requirements in terms of mission impact. Funding the requirements is the challenge. Commanders must make the difficult decision, within available funding, whether to fund their day-to-day requirements and defer FIM projects or whether to fund their most critical FIM requirements while deferring day-to-day maintenance.

We are working with OSD to develop a Facility Sustainment Model, which will allow us to better identify our facility and infrastructure funding requirements using current industry practices. Once the model is fully implemented and our requirement is determined, we will work the results through the Air Force corporate structure.

FISCAL YEAR 2001 NATIONAL DEFENSE AUTHORIZATION ACT—CIVILIAN PERSONNEL READINESS

HOUSE OF REPRESENTATIVES, COMMITTEE ON ARMED SERVICES, MILITARY READINESS SUBCOMMITTEE, JOINT WITH THE COMMITTEE ON GOVERNMENT REFORM, THE CIVIL SERVICE SUBCOMMITTEE, WASHINGTON, DC, THURSDAY, MARCH 9, 2000.

The subcommittees met, pursuant to notice, at 1:05 p.m., in room 2118, Rayburn House Office Building, Hon. Herbert H. Bateman (chairman of the subcommittee on Military Readiness) presiding.

OPENING STATEMENT OF HON. HERBERT H. BATEMAN, A REPRESENTATIVE FROM VIRGINIA, CHAIRMAN, MILITARY READINESS SUBCOMMITTEE

Mr. BATEMAN. The hearing will come to order.

Our colleagues from the Civil Service Subcommittee of the Government Reform Committee join us today for the first combined hearing of these two subcommittees, at least within my memory. I particularly welcome Congressman John Mica of Florida, who is substituting for Chairman Scarborough, in view of Chairman Scarborough's illness.

I am also pleased to welcome the Ranking Member, Mr. Cummings, and the other members of the subcommittee as partners in our efforts to oversee the Department of Defense's (DOD's) management of its civilian personnel workforce.

I recognize that many of the civilian personnel provisions we include each year in our defense authorization bill come within the jurisdiction of the Civil Service Subcommittee, and you have always been most cooperative and generous in your assistance to us. The joint hearing provides our witnesses a unique opportunity to discuss issues before both committees of jurisdiction.

One of the primary reasons we scheduled this hearing is to discuss the effect of the civilian drawdown on the Department of Defense's civilian workforce and ultimately its effect on the readiness of our military forces.

Few Americans understand that the Department of Defense has reduced its civilian workforce by more than 38 percent over the last 10 years, compared with a 35 percent reduction in active duty military forces. Many, many skilled workers across the country and overseas have left Department of Defense employment permanently.

I am also concerned that these rather dramatic reductions have occurred in such a way that the department released needed personnel who possessed essential skills. It is time to examine our ci-

vilian workforce to ensure we will have the people with the skills we need in the future.

In that regard, I would like our witnesses to provide the subcommittees an assessment of their current skills inventory and what additional tools they may need, if any, to properly align the workforce of their respective service. Additionally, I would like some assurances that the Department of Defense and the military services have planned for the future. In other words, do they have a template for the skills and the workers needed to support future operations so that younger workers can begin to be hired and trained now to meet those future needs?

If you do not have a clear vision of where you need to go, it is difficult for this committee to intelligently address issues and implement solutions.

In addition, we continue to hear concerns about the department's aging workforce as an increasing number of workers are eligible to retire. The question is will you need their skills when they do retire and do you have someone in the pipeline to fill those essential positions?

I would expect that some very careful analysis has been done before you ask our two subcommittees to consider measures changing long established personnel policies to solve a problem that so far has not been demonstrated or proven.

Finally, over the years, the department has requested and received authority to operate a variety of civilian personnel demonstration projects. I would like to hear what has been learned from the existing demonstrations. From the reactions we get back home when base closures are considered or reductions in force are announced, it is apparent that Federal jobs are still highly coveted. Therefore, it seems counterintuitive that we would have difficulty hiring new workers.

That is why I would like to see some careful analysis behind any request for new authorities, and I would insist that any new authorities be carefully targeted at skills the department has demonstrated that it cannot hire. For example, the Air Force reports having difficulty hiring engineers. The Army has a different experience. Why is that?

Today, the subcommittees will hear testimony from experts in workforce shaping issues and from the civilian personnel policy directors of the department. It is my belief that our hearing today will assist us in making the necessary decisions for our civilian workforce in the future.

Before proceeding to our witnesses, let me now recognize the gentleman from Florida, Mr. Mica, for his opening remarks.

**STATEMENT OF HON. JOHN L. MICA, A REPRESENTATIVE
FROM FLORIDA**

Mr. MICA. Thank you, Mr. Chairman. I appreciate this opportunity to join you and members of your subcommittee at this hearing this afternoon. I look forward to working with you and also the Civil Service Subcommittee chairman, Chairman Scarborough, who, unfortunately, cannot be with us today because of his injury.

I am pleased to join also Ranking Members Ortiz and also Mr. Cummings. Mr. Cummings has also been ranking on the Civil

Service and very active in these issues. It is particularly important that we have leaders like this as we address the issues of civilian personnel readiness.

This is a vitally important matter, Mr. Chairman, and I commend you for initiating this inquiry. As the former chairman of the Civil Service Subcommittee, I also want to thank you for the cooperation my staff and I have received from you and your staff on civilian personnel issues in the past Congresses. I am confident that the close working relationship will continue, as evidenced today by this joint hearing.

Today we will examine the state of readiness of the civilian workforce that supports our servicemen and women. This hearing is really the beginning of a process that will continue as our subcommittees work through a variety of civilian workforce proposals in conjunction with this defense authorization bill.

I look forward to hearing the witnesses today, all of whom bring a great deal of expertise on these civil service issues and civilian defense issues.

Mr. Chairman, there are several matters that I asked the Department of Defense and others to address as we consider the readiness issue today and throughout the remainder of this Congress.

One key issue is the effect of the dramatic reduction in civilian personnel at the Department of Defense which you referred to in your opening statement and also that in all of our military departments. Again, putting that reduction in perspective, Mr. Chairman, the drop in full-time equivalent employment at those agencies will account for 73 percent of the net personnel reduction government wide by the end of fiscal year 2001.

We need to know, Mr. Chairman, how this drawdown has affected the ability of our current workforce to support America's military forces now. If there are critical short-term problems that must be addressed now, the witnesses should identify them and provide us with concrete proposals for dealing with them.

Mr. Chairman, we have heard a lot about the threat of a hollow military; and this Congress has taken steps to turn that problem around. America must always have the best fighting forces in the world. The men and women in our armed forces must be the best trained and the best equipped. But an inadequate civilian support system will degrade the performance of even the best military force in the world. That is why we also need to be concerned about a hollow support system.

Together with the administration and everyone on both sides of the aisle, we must determine the optimum mix of skills and the optimum mix of contractors and employees needed to preserve our Nation's strength and security.

As we look to the future, Mr. Chairman, it is important that Congress make certain the Department of Defense and the military departments are integrating civilian workforce planning with the military's strategic planning. Until we know what kind of military missions and forces we must plan for, neither the Congress nor the administration can reasonably begin assessing our civilian workforce needs.

I will expect today's witnesses to demonstrate that their civilian personnel strategies are in fact solidly tied to anticipated military needs.

I will also expect a clear explanation of why such things as an older workforce are considered problems and not simply facts or experienced personnel to deal with. And I also want to know what agencies are doing and plan to do to train or, where necessary, retrain their existing employees.

Another key issue that I would like our witnesses to address is whether today's civilian benefit structure should be modified to attract highly qualified and motivated individuals. Do we need more flexible benefits and more portable retirement systems to help us compete for highly skilled workers, particularly younger workers who do not necessarily plan to make their careers with just one employer?

I am pleased to see also the gentleman from Virginia here that I have worked with in the past in trying to bring us into the 21st century in that regard. I appreciate his efforts. Sorry to see him retiring, and you retiring and anyone else who is retiring that has done such a good job toward these efforts.

So, Mr. Chairman, I look forward to receiving answers to these questions and working with you in this joint effort today.

Mr. BATEMAN. Thank you very much, Mr. Mica.

Now I would like to recognize my good friend and the Ranking Democratic Member of the Readiness Subcommittee, Solomon Ortiz of Texas.

STATEMENT OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, MILITARY READINESS SUBCOMMITTEE

Mr. ORTIZ. Thank you, Mr. Chairman, for agreeing to hold this hearing today and, of course, we are happy to have our colleagues with us.

This is the first civilian personnel readiness hearing we have conducted in quite some time. It does not mean that we have not been enacting legislation impacting on the matter during this time. It is more of a case of the absence of an opportunity to look at civilian personnel policies and practices in an integrated manner.

I join you in welcoming all of our witnesses here today. I also appreciate the opportunity to explore this important issue with our colleagues on the Civil Service Subcommittee of the Government Reform Committee.

Mr. Chairman, while there are many civilian personnel issues that loom before us, I am very much concerned with the problems and challenges associated with a dwindling and an aging workforce. I have also heard some of my colleagues express their concerns about these matters.

During preparation for this hearing, I was reminded that the United States will reportedly be the last of the developed nations to experience the aging of its population. By 2025, nearly 18 percent of all Americans will be over the age of 65. This aging population not only affects the demands for funds for non-defense activities, it also impacts on the quantity and quality of civilian per-

sonnel we will be able to attract and to retain to meet the department's technical and management challenges.

I am most familiar with the situation at the Corpus Christi Army Depot, where today there are no employees under the age of 30. The significance of this fact is that it is easier for a 30-year-old to climb around an airframe in the 60 degree heat of summer than it is for a 50 to 60-year-old, and I can vouch for that.

From my study of the Army Materiel Command civilian personnel status, I found that in six critical career programs, 72 percent of the workforce is over 40 and 35 percent is above age 50. Today, the average is 48.7. By the year 2004, some 50 percent of the Army Materiel Command's civilian workforce will be retirement eligible. I think those statistics by themselves tell us a lot.

Notwithstanding the current trend toward outsourcing privatization of functions that have traditionally been performed by Department of Defense (DOD) civilians, the promised increased reliability of new equipment and the innovative maintenance and management concepts that we hear about, I am convinced that there will always be a need for a core DOD civilian workforce. I am not sure that the department is in the best posture at this time to prepare for the future while there is still time.

It is not the same in DOD as it is in some sectors of the Department of Energy. In the Department of Energy, we are scrambling to capture the experiences of personnel who work nuclear weapons issues before they disappear. But the impact could be the same if we do not take the steps necessary to make sure that we have in place the right policies and programs to meet our future civilian workforce requirement.

I know that we have had programs in existence for some years to attract, train, and retain white collar employees and the department tells me that those programs have been useful. But when I inquire about blue collar technical employees, I find a different story. Some of the skills needed require long lead times to produce these highly trained technicians we need to maintain the increasingly complex equipment we are procuring. Some of the same skills are required to maintain the legacy equipment that we will retain in the inventory for some time.

It is my assessment that we just do not have sufficient programs in place to meet future requirements. It is for that reason I am proposing that the Department of the Army conduct a pilot apprentice program at Army depots that will address the future need for some already known hard-to-find blue collar technicians.

The Army Materiel Command has provided a detailed listing of what skills are wanting depot by depot. The outcome of this program will be useful in assessing strategies designed to solve this problem in other places in the department.

Mr. Chairman, there are some tasks that I am convinced must be accomplished sooner rather than later. We need to understand the potential implications of aging population on national security. We need to better understand what are our future workforce requirements so that appropriate policies and plans can be put in place to address the totality of the problem. There is a need to understand the impact of the drawdowns on productivity as well as

our ability to attract and retain the quality and quantity of workers that we need.

We need to understand the linkage between the perceived problem and the separate bits of legislation we have enacted and the department's policies and practices. We need to develop legislation if needed to provide the tools needed to properly shape the workforce. We need to understand the costs so that we can ensure that an integrated investment strategy is developed and in place to guide the implementation of rational and achievable civilian personnel goals.

This is not a case of mission impossible, and I know it is not something that can be accomplished without considerable effort, but it must be done. We must make the investment or we will not provide for the future workforce capable of meeting technical and management challenges, all to the detriment of readiness.

Mr. Chairman, I thank you for your insight and for your vision and thank you for holding this hearing today.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz.

And now I am pleased to recognize the Ranking Member of the Civil Service Subcommittee, Mr. Elijah Cummings of Maryland.

STATEMENT OF HON. ELIJAH E. CUMMINGS, JR., A REPRESENTATIVE FROM MARYLAND, RANKING MEMBER, THE CIVIL SERVICE SUBCOMMITTEE

Mr. CUMMINGS. Thank you very much, Mr. Chairman, and Ranking Member Ortiz of the Military Readiness Subcommittee, and certainly to Mr. Mica and Chairman Scarborough of our Civil Service Committee. I really do appreciate you scheduling this hearing.

This hearing sends a message to Federal agencies that it is important to plan for the future and develop a strategic approach to manage, train, retain, develop, hire, pay and evaluate their most valuable assets, its employees.

As Ranking Member of the Civil Service Subcommittee, I am aware of the impact of downsizing, contracting out, reductions in force, and an aging workforce can have on employees and the management of employees. Morale suffers due to limited career and promotion opportunities; people become insecure about their jobs and are forced to work longer hours to accomplish the same amount of work.

When this occurs, not only do employees suffer, but the agency and its mission do as well. This situation is exacerbated in the case of the Department of Defense.

In 1996, the General Accounting Office (GAO) reported that between the years of 1987 and 1995, DOD reduced its civilian workforce by approximately 25 percent or about 284,000 personnel. GAO noted that by the time DOD finishes its downsizing plans in fiscal year 2001, DOD would have reduced its civilian workforce to about 728,300 personnel, almost 35 percent below the 1987 end strength and about 16 percent below the 1995 end strength.

When the GAO report was issued, DOD reported that civilian downsizing had not adversely affected military readiness at the installations visited by GAO. However, DOD did state that if not

managed properly in the future, civilian downsizing could have an adverse effect on combat units.

I look forward to hearing from DOD as to the current status of its downsizing efforts, its impact on civilian employees and its strategic plan to manage its workforce in the future. Any testimony the witnesses can offer to help us understand this issue is most appreciated.

Thank you very much.

Mr. BATEMAN. Thank you, Mr. Cummings.

At this point, I would like to ask unanimous consent to have Chairman Scarborough's statement made a part of the record.

[The prepared statement of Mr. Scarborough can be found in the Appendix on page 323.]

Mr. BATEMAN. Now I would like to welcome our first panel of witnesses who are experts in the work shaping issues that we are principally concerned with today.

The first panel consists of Mr. Frank Cipolla, Director of the Center for Human Resources Management of the National Academy of Public Administration; and Mr. Michael Brostek, Associate Director, Federal Management and Workforce Issues for the General Accounting Office, who is accompanied by Mr. Barry Holman, Associate Director, Defense Management Issues, of the General Accounting Office.

Gentlemen, we welcome you. All of your written statements will be made a part of the record.

And now, Mr. Cipolla, I will call on you to proceed as you may choose.

STATEMENTS OF FRANK CIPOLLA, DIRECTOR, CENTER FOR HUMAN RESOURCES MANAGEMENT, NATIONAL ACADEMY OF PUBLIC ADMINISTRATION; MICHAEL BROSTEK, ASSOCIATE DIRECTOR, FEDERAL MANAGEMENT AND WORKFORCE ISSUES, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY BARRY HOLMAN, ASSOCIATE DIRECTOR, DEFENSE MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE

Mr. CIPOLLA. Thank you, Mr. Chairman. We, as you mentioned, did submit a detailed statement for the record, so at this time I would like to just give a brief oral summary.

We appreciate the opportunity to appear today to discuss civilian personnel readiness.

The National Academy of Public Administration is an independent, non-profit, non-partisan organization chartered by the Congress to improve governance. We hope to be able to provide some outside DOD perspectives on this issue, which is of extreme importance now to most Federal agencies, including DOD.

I would like to before I proceed acknowledge the presence today of the newly-appointed president of the National Academy, someone you know, I know, Mr. Robert O'Neal, who is here in the audience.

Mr. BATEMAN. We congratulate the academy on its choice and I am very, very pleased to see my friend Bob O'Neal again.

Mr. CIPOLLA. Thank you, sir.

We have been putting a good deal of priority on this subject of workforce planning and workforce shaping and a good bit of our re-

cent work has included a number of subjects that are relevant to this hearing.

I have included a listing of several recent studies and reports on these subjects. I can make those available for the record, if you wish.

Mr. BATEMAN. We would be pleased to have them.

Mr. CIPOLLA. Good. We will do that.

Some background. Civilian personnel readiness is an important subject, as I mentioned, not just for DOD, but certainly including DOD. Projecting the role and the composition of the civilian component of the total force is a continuing challenge, even more so as agencies look ahead and attempt to build the workforce from where downsizing and restructuring left it.

There is no doubt that the task faced by DOD and its components to assure that the right people are in the right place at the right time is more daunting than ever. They are searching for answers to questions about what civilians will be doing, what is the right civilian-military mix, what are the competencies or skill sets that will be needed, how will the skills and knowledge of the current workforce be updated, what is the best approach to recruiting for scarce skills, and what needs to be done to retain senior level expertise in key occupations.

Most Federal agencies are facing these or similar questions after spending the better part of the last decade trying to manage downsizing, keeping the adverse impact on people to a minimum and working to get maximum productivity from the workforce that is left, all while still adhering to merit principles that have been the foundation of Federal employment since 1883.

Federal managers now find themselves in a war for talent, trying to compete in a tough market and making decisions about human capital investment. Government and the private sector alike are discovering that they cannot address these questions in a rational and defensible way without instituting a systematic process of workforce planning. Last year, the academy looked at 17 Federal agencies and found that most of them were beginning to do that.

I would like to share some of that information along with primarily some key conclusions about this subject and I will just state those at this point and then if you have questions, I would be happy to comment on them. They are detailed in the prepared statement.

The first of those is that workforce requirements must be linked to the agency's overall strategic plans. That has already been said in a number of ways, but we cannot over stress that point. Agency strategic plans must have a people component. That needs to be part of the process.

The second point is that workforce planning must include the collection and analysis of data about the external environment as well as information about the current workforce. We have already heard some of those trends that are going to be shaping and are already shaping the workforce and the workplace over the next 5 to 10 years: skill shortages, increasing age of the workforce, increasing retirement eligibility, the workforce becoming more diverse, technology making possible alternative work arrangements, and the

newer generations of employees having different values and expectations about work and the workplace.

The third point is that projections of future workforce requirements must be expressed in terms of needed skills and competencies, not just numbers of full-time permanent employees.

Fourth, decisions on the composition of the future workforce should consider the use of flexible employment arrangements. Increasingly, the right people for getting the job done in the future will be a mix of workers and a mix of employment arrangements.

Fifth, managers must be given maximum flexibility in managing work and assigning staff to meet changing mission and program requirements. The civilian personnel system, to the extent that it is possible, must accommodate the requirement for that flexibility.

The sixth point, human capital development and continuous learning should be viewed as an organizational investment and given a high strategic priority. Federal agencies need to transform training programs into an ongoing process of re-skilling and re-tooling the workforce to acquire and maintain the competencies needed to keep up with the changes in mission technology and the content of work itself.

And the seventh and final point relates to retirement incentives. Retirement incentives should be used selectively to support restructuring and to retain needed talent in scarce skill occupations. And we could elaborate on that, but I think I have completed my time.

I'd be happy to answer any questions you have, sir.

[The prepared statement of Mr. Cipolla can be found in the Appendix on page 326.]

Mr. BATEMAN. Thank you very much, Mr. Cipolla.

Now we would be very pleased to hear from Mr. Brostek.

Mr. BROSTEK. Thank you, Mr. Chairman. I am pleased to be here to discuss why this is an opportune time to assess human capital management at the Department of Defense and a self-assessment checklist that GAO has developed to help agency leaders focus on improving the management of their workforce.

My observations on DOD's human capital management situation are based on work we have done at DOD throughout the 1990s that provide us some perspectives on the issues that have arisen during downsizing, but do not represent a comprehensive assessment of workforce planning at the Department of Defense.

However, in summary, several factors suggest that this is an important time for DOD to assess its human capital practices. Public and private high performance organizations recognize that people are their key asset. It is through the talent and dedicated work of staff that missions get accomplished. Therefore, sound management calls for continually reassessing human capital management, especially in a dynamic environment. And surely DOD is in a dynamic environment.

DOD's civilian workforce, as has been mentioned, is about 36 percent smaller now than it was in 1989 and it is likely to get smaller. In part, due to these reductions, imbalances exist in the age distribution of DOD staff. The average age of civilian staff has been increasing while the proportion of younger staff who are the pipeline of future talent and leadership has been dropping.

DOD reform initiatives are also changing the way the department does business and new business practices affect the competencies that employees must have. Together, these changes suggest that DOD faces challenges in ensuring that it will have the talented workforce that it needs in the next decade.

To help agencies assess their human capital management and to deal with these challenges, we developed a five-part assessment framework that we believe can be useful in aligning human capital management with agencies' missions, goals and strategies.

I will talk very briefly about each portion of that framework.

The first part starts with strategic planning because decisions made today determine whether an agency will have the workforce that it needs in the future. A workforce cannot be reshaped overnight. For instance, if an agency's strategic plan calls for a greater reliance on information technology, there are implications for the competencies that the workforce will need.

The actions needed to reshape the workforce such as training, hiring employees with requisite skills and possibly separating employees whose skill sets are no longer well matched to agency needs must be carefully designed and implemented.

Next, our framework calls for aligning an agency's human capital policies and practices to support the agency's strategy. This is where detailed workforce planning is done. Looking at the strategies for 5 years or more into the future, the agency defines the knowledge, skills and abilities that employees will need as well as how many employees will be needed at that time.

Those knowledge, skills and abilities are then assessed in the current workforce and projections are done of workforce attrition due to things like retirement and resignations and other factors.

Then the gap needs to be assessed between the skills and abilities and size of the current workforce and the similar qualities of the workforce in the future.

Once that gap measurement has been made, an agency is finally prepared to actually develop a plan to transition its current workforce to that which it is going to need in the future.

The third part of our framework emphasizes that agencies must proactively develop their future leadership. The agency must begin by determining the qualities and characteristics that are most needed in its future leaders.

Leaders develop over long periods of time and, therefore, agencies need to identify potential leaders early and provide them with a variety of professional development and learning opportunities throughout their careers.

The fourth element of the framework focuses on ensuring that agencies recruit, develop and retain the employees with skills necessary to support mission accomplishment. In a sense, this is the execution of the workforce plan. The workforce plan identified the types and numbers of employees needed. At this point, agencies need to go out and identify by targeting the individuals that have the skills and abilities that are needed and hiring them and by targeting training to the current workforce to move their skills and abilities to those that are required to implement the plan that the agency has adopted for executing its mission.

Finally, the framework focuses on ensuring that an agency's human capital practices and policies create a culture in which high performance is expected and supported. Human capital practices should enable and motivate employees to achieve high performance. Achieving high performance may be aided by a performance management system that links to the extent possible individual performance expectations and rewards to the success of the organization itself.

In conclusion, the dynamic changes in DOD over the past decade and the continuing changes likely this decade underscore the importance of a well developed, human capital management strategy to DOD's future mission accomplishment. It is vitally important to start by looking to the future, determining what type of workforce will be needed for the future. When this is done, DOD can develop plans for creating that workforce and following up with the actions and investments needed so that when the future arrives, the right employees with the right skills, training, tools and performance incentives will be on hand to greet that future.

That concludes my statement, and Mr. Holman and I will be happy to answer any questions you have.

[The prepared statements of Mr. Brostek and Mr. Holman can be found in the Appendix on page 341.]

Mr. BATEMAN. Thank you very much, Mr. Brostek.

Mr. Holman, we would be glad to hear from you if you have anything you would like to add at this time.

Mr. HOLMAN. No separate, Mr. Chairman, just an observation that we have done a good body of work over the years, looking at a variety of defense business practices, outsourcing, depot maintenance and issues like that and we know that the issue of civilian personnel impacts from drawdown and readiness, aging workforce, are issues that are very much out there that are increasing concerns to people, so we are happy to participate in this hearing today because I think it is an important issue, that it does require some planning to deal with.

Mr. BATEMAN. Thank you, Mr. Holman.

Mr. Brostek, let me ask you this. You have spoken of workforce plans for the utilization of human capital which I think is very interesting terminology.

At what levels does this take place? Is this done by someone in the Office of the Secretary of Defense or is it done there plus in each of the military departments or is it within systems commands or major commands within each of the services? Where does the workforce plan begin and end?

Mr. BROSTEK. Well, I think it is going to have to occur throughout an organization the size of DOD. It has, as you know, a vast number of employees. About 40 percent of the Federal civilian workforce is in DOD. So I think it is impractical to expect that all the workforce planning could be done out of one central location.

On the other hand, the important reference point for all of the workforce planning that needs to be done is the strategy that the department adopts for accomplishing its mission of defending the country and that is a department-wide policy that needs to be set and then the individual planning that needs to be done by the various components is in relation to that strategic plan that was

adopted, the approach that the department wants to follow to carry out its mission.

Mr. BATEMAN. We will be hearing from Department of Defense witnesses shortly, but do you have any insights as to what degree elements of the Department of Defense or the Office of the Secretary of Defense have become engaged in what you would call workforce planning?

Mr. BROSTEK. Well, Mr. Chairman, I have to admit that we have not done a comprehensive assessment of the department, but I do have an extract from the Defense Science Board Task Force report that came out just this past February that suggests that there is a bit of a gap in workforce planning. If I can just quote a little piece of this, the report says that "Today, there is no overarching framework within which future DOD workforce is being planned. An overarching strategic vision is needed that identifies the kind of capabilities that DOD will need in the future, the best way to provide those capabilities and the changes in human resources planning and programs that will be required."

This is a good statement of what needs to be done, and it is also apparently a statement that in the opinion of the Defense Science Board that has yet to be done.

Mr. BATEMAN. What was the date of that statement?

Mr. BROSTEK. February 2000.

Mr. BATEMAN. Thank you.

Mr. Cipolla, in your written statement, you made reference to a phenomena called telecommuting.

Mr. CIPOLLA. Yes, sir.

Mr. BATEMAN. Have you done any particular study as to the effectiveness and productivity of workers who perform by the telecommuting phenomena?

Mr. CIPOLLA. We have and among the reports that I mentioned earlier there is some coverage of that. Recently, we had in one agency a review of telecommuting arrangements that were in fact negotiated with the labor union involved and we participated in the assessment after the arrangements had been underway for some time. This was an organization that was essentially an information technology organization, so the nature of the work was conducive to this sort of thing and the overall assessment was that it was working quite well, in the view of both the employees and the unions and the customers who were in receipt of the services of the organization. As a generalization, it varies. And it is an extreme culture challenge in some organizations and less so in others, and I guess that is the best way I can describe it.

Mr. BATEMAN. I have two telecommuting centers in my district and, of course, most of the people, almost all of them, are Federal employees. My general understanding is that it is very, very highly regarded by the Federal employees. I am more curious to know whether or not Federal workforce managers are sympathetic to and anxious to have their employees participate in that manner, but I guess our government witnesses can cover that.

Mr. CIPOLLA. Well, frankly, our experience has been that many managers find it difficult for a lot of the reasons that you might imagine, all associated with a loss of control in some form or another.

Mr. BROSTEK. We did some work on that, if I can intercede for a minute—

Mr. BATEMAN. Yes, please.

Mr. BROSTEK.—about two or three years ago and we found a pretty similar result in the Federal Government, that there was a mixed bag among Federal managers. Some were quite supportive, but others were less supportive. It was around a control issue. Sometimes it was around whether or not the manager felt that they could really assess the performance of the individual when they were not in the office. If the type of work that was done was not something that could be measured easily, the supervisor was a little reluctant to let that not occur within his or her sight.

Mr. BATEMAN. Thank you.

Mr. Mica.

Mr. ORTIZ. I am sorry. Go ahead.

Mr. ORTIZ. No problem.

I would like for the witnesses, maybe all of you can give me some input, but do you think that evidence of an aging workforce is a condition needing correction, particularly since most of the jobs eliminated in the Department of Defense were lower graded positions, or is more analysis needed?

Mr. CIPOLLA. On the surface, that would appear to be the conclusion that one would reach. But at the same time, if we look closely at the skills that we need, which is what this subject is all about, in an organization now and in the future, an aging workforce is not necessarily an indication of something that needs to be corrected. In fact, retaining senior level expertise in some important occupational groups that are particularly difficult to recruit for in today's highly competitive market is something that needs to be included in strategic workforce planning. In other words, we need a balance.

Mr. BROSTEK. I would roughly concur with what Frank has said. The simple fact that the workforce is aging does not in itself tell us that there is a major problem. What it does tell us is that there is a flag here, that some attention needs to be paid and some analysis done.

The situation in DOD is that the proportion of the workforce that is below age 31 has dropped fairly dramatically from about 17 percent in 1989 to around 6.5 percent now. That may be an adequate number, but I think it is something that needs to be investigated to ensure that the people who are needed to be the future leaders and talent of the organization are being grown.

We also have had some similar conclusions to what Mr. Cipolla was saying about the folks who are toward the end of their career. Sometimes it is to the advantage of the agency to offer various inducements to get people to stay a bit longer; and we do know that a thing called phased retirement is becoming more popular in the workforce of the country at large, where sometimes we offer people the opportunity to come back on a part-time basis 2 or 3 days a week or something like that, to stay in the workforce and to keep that institutional knowledge that was gained over a long career available to the organization.

Mr. HOLMAN. I would agree with what has been said, just echo, I think, the key word is balance in terms of requisite skills, grade, allowance for succession planning as we see the larger portion of

the workforce seeming to be grouped in the 40s and 50s, closer to the 50s, and nearing retirement in the next few years. So it is a requirement for orderly succession planning and balance in that workforce.

Mr. ORTIZ. And I just have one more question because I would like for the other Members to also ask questions.

Mr. Cipolla, in your research, are you finding evidence of a general shortage of technical workers in the United States? If that is so, given the operation of the law of supply and demand, the skilled workers will be able to shift from job to job almost at will.

Would it not make more sense for the Department of Defense to contract for these workers as needed, rather than trying to rewrite civil service law to provide extraordinary authorities likely necessary to be able to maintain a large permanent staff?

Mr. CIPOLLA. Well, the premise that you stated, as you stated it, I would have to agree with. First of all, the shortage does exist. There is no sign that it is going to abate in the near future. The market is going to become even more competitive for scientific, technological and particularly people who have skills in information technology.

What you have described is actually happening, to the point that if you looked at the numbers of the information technology workforce across government agencies, you would find that we have now reached the point that there are more contract employees than there are civil service employees.

That in itself is not bad, but it raises all kinds of questions about our ability to manage that kind of a mix.

Mr. ORTIZ. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz.

Now, Mr. Mica.

Mr. MICA. Thank you.

Just a follow-up to that, Mr. Cipolla. I am not in the military side of this, I have watched it from the civilian side, but you do not have to be a military analyst to see that we have a change in the world situation and that we are now doing employments in sort of peaks and valleys.

How do you maintain a minimal civilian force and then be in a position to meet these peaks unless you go to contracting?

Mr. CIPOLLA. Well, I am sure our colleagues from DOD are going to talk about the strategic sourcing process which is aimed at identifying that core workforce or those core sets of competencies that are needed. The problem is that they need to be continually updated and there needs to be a systematic process that reassesses those determinations in the light of what is going on in the environment.

Mr. MICA. Well, you have not answered my question.

With the active military, we have a Reserve force and we call them up. With civilians, you have a core, then what is the model to meet the peaks and valleys of the civilian workforce if it is not full-time employees or contractors? How do you approach this and be prepared all the time? What are the recommendations before we hear from the other folks.

Mr. CIPOLLA. I do not know that there is a model that can be applied, a quantitative model that can be applied, across a whole agency or even a major part of it.

What has to drive the determination about what the right mix is an assessment of what is needed in terms of the core work, what are the competencies that are required. If we cannot get them from internally within the department's workforce, we cannot compete in the market, then maybe the best response is to contract. But I do not know of any overriding model.

Mike, maybe GAO—

Mr. BROSTEK. I would agree that one of the likely sources for dealing with considerable workload fluctuations is contracting. It is certainly a legitimate source to turn to.

Agencies also have the ability to do some term hiring for employees, bringing them in for—I believe it is up to a 3-year period of time, as Federal employees to work on short-term projects. That can also be another mechanism for dealing with a fluctuating workload situation and might be a situation that is desirable to use if you want to be creating government policy, doing inherently governmental functions, which you would not normally want to; you would not ever really want to contract out.

If I could jump back for just a second to Mr. Ortiz's point which is relevant to your question, too, Mr. Mica, to the extent we do rely more and more on a contract workforce and we use them as the reservoir of talent for dealing with workload fluctuations, we have to be very careful to have reserved in the Federal Government sufficient oversight capacity to monitor the cost and the quality of the contract services that we are being provided because if we do not have a sufficient reservoir of capacity to monitor the cost and quality, we can suffer some pretty unfortunate consequences even through the contracting process.

Mr. MICA. One more final question, if I may, Mr. Chairman.

Mr. BATEMAN. Certainly.

Mr. MICA. We spent somewhere in the neighborhood, I think, of \$4 billion on buyouts since 1993. They came in and we did all kinds of buyouts and I became concerned; Mr. Cummings and I held hearings on this, about what was going on. Did we go overboard in the buyout area? Are we now suffering from going beyond what we should have with the buyouts or was it a balanced approach?

Mr. Cipolla.

Mr. CIPOLLA. That is a difficult question. Did we go overboard? It has to consider the requirements and the targets that agencies were expected to accomplish.

Unfortunately, at least in the early stages, buyouts were being used to avoid restructuring, rather than to support restructuring. And, of course, our recommendation is that that whole process be turned around. To the extent that we can identify what the projected organization should be doing and structure it accordingly, if we need buyouts, to either protect needed skills or to eliminate those that we do not need, then that is a more appropriate use, but the Department of Defense did not have those kinds of options, especially in the early—nor did any agency—in the early stages.

Mr. BROSTEK. We did, as you know, for you, Mr. Mica, a fair body of work on the downsizing as it was occurring and we did find

that early on in the downsizing period, not necessarily just through buyouts but through all the techniques that were used, that there was kind of a rush to meet the target and there was inadequate planning to assure that when the target was met that the reduced workforce, that those who were left had the knowledge, skills and abilities necessary to perform the mission of the agency well.

Through legislation that you were involved with, as I recall, there was a requirement that agencies begin doing better workforce planning before they were able to offer any buyouts; and when we investigated agencies after that legislation passed, we did see some improvement in the targeting of the incentives for separations and thus a better balance in the workforce as the downsizing continued.

Nevertheless, with what we saw early on in the downsizing period and the lack of hiring for a number of years during the 1990s, we are likely to still have some imbalances in the skills and abilities of the workforce.

Mr. MICA. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Mica.

Now Mr. Cummings.

Mr. CUMMINGS. Mr. Brostek, just following up on what you just talked about, do you think there is enough authority now to be able to maintain that balance?

In other words, if you have one area where you really need people, say, for example, technology and then you have this other area that just hypothetically is more toward the manual labor side and now the technology has just taken over, is there enough authority to be able to, for example, have a buyout situation for the manual labor folk and keep the other folk without, you know, the skilled computer folks, without running into problems? Because it seems like that is what you would almost have to do.

Mr. BROSTEK. As I understand it, there is not a blanket authority that exists now for agencies to use buyouts to restructure or reshape their workforce.

As a general practice, when agencies have buyout or early out authority, it is generally connected with a reduction in full-time equivalents (FTEs), someone leaves with a buyout and the agency loses one position to fill.

There have been a number of instances in which Congress has granted exceptions to that, specific legislation that was crafted for a specific situation in which an agency was given the ability to offer a buyout to restructure its workforce along the lines of what you are talking about. Whether or not a blanket authority is needed, we have not really assessed that, but we certainly think it would be important for agencies to kind of make a fact-based case for why they need that, even if there was a blanket authority, before they started using the buyouts again.

Mr. CUMMINGS. In my district, a private company, Domino Sugar, I guess about 8 or 9 years ago moved to computerize itself. It is now about 90 percent computerized and they literally cut their workforce almost in half. And they are able now to produce sugar—when you even throw in inflation—at the same cost that it was in 1960. That is amazing. So the question becomes when they did that, though, they went through an intense retraining and so now

you have these guys that used to be toting these big bags of sugar sitting up in an air conditioned booth hitting buttons. And, you know, it was just so interesting and they are making more money; they are doing fine; but I was just wondering, how much emphasis do we put on retraining of the personnel that are there?

I think, you know, that kind of thing is good for morale, when people feel that they can now do something that they could not do before. It also bodes well for upward mobility. All of those kinds of things, I think, go to morale and I think that that is something that we all have to be concerned about with regard to employees in the Federal Government and I was just wondering where are we on those kind of things.

Mr. BROSTEK. Well, I think both Mr. Cipolla and I indicated in our statements that training and retraining of the workforce as the techniques used for carrying out the mission change is a very important part of workforce planning and the execution of workforce planning.

We do not have a very good grasp on what the training situation is in the executive branch. There is not any central reporting of training expenditures. We do have anecdotal evidence that during downsizing training was one of the areas that tended to be cut and cut fairly severely. So it is a possibility that this is an area in which additional investments will be needed.

Mr. CUMMINGS. Now, Mr. Cipolla, you talked about flexible employment arrangements. What do you mean by that?

Mr. CIPOLLA. Well, anything other than the traditional 8 to 5 or 5-day-a week, 40-hour work week; different tour arrangements, even different—the telecommuting that we talked about earlier. That term would include contracting, it would include the contingent or the supplemental workforce, the temporary people that we would add, even from an employment agency, to meet a current need that we would not meet over the long term.

In government, in most agencies, over the years, we have tended to think of a full-time permanent employee as the only way we fill a position. We fill it the same way it was vacated, as opposed to looking at different options among those that I mentioned for getting the work done.

Mr. CUMMINGS. Do we have—I mean, what elements will we have to have, say, an agency will have to have for telecommuting to be effective and for you to have—apparently it works in certain kinds of private industry and I guess the question becomes just how do we make it work, say, for Federal Government or the various agencies within the government?

Mr. CIPOLLA. It essentially has to be—at least this is our experience—a local matter and one in which employees and managers can work out to their satisfaction—if there are unions recognized, they should be involved, employees need to be involved as early as possible in any proposal involving telecommuting and there may even need to be training for managers on the advantages and disadvantages of going to a telecommuting arrangement. But it basically starts as a local process where you cannot communicate too much about what the intent is.

Mr. CUMMINGS. All right. I do not have anything else. Thank you.

Mr. BATEMAN. Thank you, Mr. Cummings.

Now Mr. Underwood.

Mr. UNDERWOOD. Thank you, Mr. Chairman, and thank both of you for having this hearing.

I want to ask a couple of questions, not so much in the framework that is offered to us here as managing human capital, but just more or less what happens to these human beings as a result of these so-called cost saving measures.

In particular in the community I represent, A-76, which has just been devastating because it is not only the largest A-76 effort, it really has altered the dynamics of Federal employment and all the kinds of issues that have been brought out here ranging from no more interest in Federal employment to the aging to the problems associated with priority placement, what you do with an isolated community in which the only other option that people have is to seek employment in the Federal system 5,000, 6,000 miles away.

So the questions that I wanted to raise were in terms of the thinking behind the kinds of protections or offers that we give to Federal employees who are experiencing these job cuts and they include early retirement and the buyouts and perhaps some attention to mobility; the two questions I have related to that and then I have yet another question is what kind of thinking have either of you gentlemen given to what kinds of additional programs or protections can be provided or offered to the Federal employees who are experiencing this; and, second, has either one of you studied what has happened to people who exercised the right of first refusal, what experiences do they undergo because the people who are—this right of first refusal has been touted as a way to provide some worker protection and in this particular instance that we are just undergoing these 3 months, people are being offered—people who used to make \$28,000 a year are now being offered \$17,000 a year and so. I rather doubt that, one, we have yet to see in the Armed Services Committee the savings that allegedly come from that and, second, we certainly see the cuts into the pay that are given to these Federal employees.

So could you address the issue of what kind of general thinking is there on the issue of incentives or protections and also what happens to the right of first refusal?

Mr. HOLMAN. Mr. Underwood, we have not done any systematic look at the right of first refusal. We know that certainly is there and it is an opportunity for Federal workers who are affected by the A-76 process to accept employment with the winning contractor when the contractor wins the competition.

Anecdotally, I can say to you I have heard stories of communities where the affected workers got equal if not better. I have also heard stories of other communities where perhaps workers may end up getting less benefits. But nothing overall that would say what the overall trend is.

I do know of one situation that is currently underway with the Army's logistics modernization effort. That effort offered employees a pretty good package, a soft landing, to accept employment with the winning contractor; and I think the verdict is still out as to how many of those employees will, in fact, take that offer.

One of the things you run into at this day and time with the aging of the workforce, you have so many workers within 5 or 6 years of being eligible for retirement and while they may have a good safety net or a package to go to with that winning contractor, they are not quite willing yet to forego obtaining the retirement benefits they could get under civil service. So that is an issue that is out there that looms that affects a lot of people; but overall, I cannot say we have detailed information on acceptance or rejection of the right of first refusal.

Mr. UNDERWOOD. I think that certainly suggests itself for potential study and certainly a more systematic inquiry.

What about the issue of having additional incentives or protections? Is there any other ideas that have been generated?

Mr. BROSTEK. We have not really done any investigation of what in addition to what is currently available might be needed.

Mr. UNDERWOOD. Okay. The issue of core competencies has been raised, trying to identify that core workforce, and the term "inherently governmental" is used to describe which employees or which kinds of activities you are going to keep on civil service activities with civil service employees.

Has, in your experience, the term "inherently governmental" been applied or understood evenly or have there been efforts to kind of make the definition elastic or contract whenever someone thinks that it is convenient to do so?

Mr. CIPOLLA. Sir, I believe that is likely a rhetorical question.

Mr. UNDERWOOD. No, I am interested—well, I am not interested in a rhetorical answer. Maybe you can just give me some facts so that I can ask another rhetorical question.

Mr. CIPOLLA. Our experience from talking with people in agencies, not only in DOD but across government, is that it is difficult to reach a consistent view of what is inherently governmental, as well as have people articulate a consistent process. And I cannot add anything to that. That basically is—

Mr. UNDERWOOD. Well, so then it is not inherent.

Mr. HOLMAN. Mr. Underwood, I think the work that we have done on the A-76 issue indicates to us that that is very much a subjective term. It does vary across agencies. In fact, we are doing some work now looking at the DOD's application of their DA-20 process as well as the FAIR act and I think it is safe to say you do see some inconsistencies between the services. I think it is going to be an evolutionary process as greater attention is given to looking at individual functions and trying to determine whether they do involve work that should be done in house or potentially subject to competition and contracting out. But there is very much an element of subjectivity involved.

Mr. UNDERWOOD. Well, thank you for those comments and obviously for it to be an evolutionary process means that a lot of people get nicked in that process of evolution.

More importantly, as I pointed out to you, Mr. Chairman, ordinance activities are not even seen as inherently governmental in the contracting out on this particular A-76 study and it is not even seen as an issue of readiness; and this is a great source of disappointment to me and is a point of contention in the implementation of this particular A-76 issue that I am referring to and I cer-

tainly would ask other members of the committee to help me sort this out.

Thank you.

Mr. BATEMAN. Thank you, Mr. Underwood.

Mr. Ortiz has a question.

Mr. ORTIZ. This goes back to when you were talking about the necessity of having some type of balance, the contract workers versus the civilian portion. Let me tell you of an experience I had last week or even before that.

As you well know, some of the Apaches were grounded, could not fly, they needed to be refurbished and that is very key to our readiness, Mr. Chairman.

They went to a private company and they told them we need to work on 700 Apache helicopters. The answer was we can get started in May of this year and maybe finish by late 2001. Well, they went to the civil service workers. They are finished with the work before the other company could get started.

I do believe very strongly that there has to be a balance. The gentleman went down and says when he came to me, I am supposed to supply these helicopters when we go to war and we were not in any position to do so. And he went down just to thank them because the company, without having to name a name could not do it; but the civil service workers could do it a year before the other company could get started. So I think that the balance, Mr. Chairman, is very, very important. I just wanted to make this point and maybe you can add something to it or maybe you have some experiences such as this.

Mr. CIPOLLA. That is an excellent point and there are as many anecdotes of that sort on one side of the issue as there are on the other side, which points up the need for the validity of the process and even more importantly for having an objective that tries to achieve as much balance as possible.

Mr. BATEMAN. All right. Anything further?

Mr. Cummings or Mr. Ortiz.

[No response.]

Mr. BATEMAN. Gentlemen, we thank you very much for appearing before us today and giving us the benefit of your thinking on these matters and we are in your debt.

And with that, we will excuse the first panel and ask the second panel if they would come up and be seated.

Our second panel this afternoon consists of the following witnesses: Dr. Diane M. Disney, Deputy Assistant Secretary of Defense for Civilian Personnel Policy; Mr. David L. Snyder, Deputy Assistant Secretary of the Army for Civilian Personnel Policy; Ms. Betty S. Welch, Deputy Assistant Secretary of the Navy for Civilian Personnel; Ms. Mary Lou Keener, Deputy Assistant Secretary of the Air Force for Force Management and Personnel; and Mr. David O. Cooke, Director of Administration and Management, Office of the Secretary of Defense.

Dr. Disney, we have your full statement, and it will be made part of the record, and now you may proceed as you choose.

STATEMENTS OF DR. DIANE M. DISNEY, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR CIVILIAN PERSONNEL POLICY; DAVID L. SNYDER, DEPUTY ASSISTANT SECRETARY OF THE ARMY (CIVILIAN PERSONNEL POLICY); BETTY S. WELCH, DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR CIVILIAN PERSONNEL; MARY LOU KEENER, DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE FOR FORCE MANAGEMENT AND PERSONNEL; AND DAVID O. COOKE, DIRECTOR OF ADMINISTRATION AND MANAGEMENT, OFFICE OF THE SECRETARY OF DEFENSE

Secretary DISNEY. Thank you, sir.

Mr. Chairman, members of the subcommittees, I am pleased to be here today to discuss the matters affecting the civilian workforce within the Department of Defense.

Over 10 consecutive years of downsizing have brought significant changes in DOD's workforce, as has already been pointed out. As fiscal year 1989 ended, DOD employed about 1.15 million people. A decade later, the number had declined to some 732,000, a drop of over 36 percent. Plans call for another 11 percent drop from that number by the end of fiscal year 2005.

What does all of this mean?

First, there has been a 4-year increase in the average age. Further, the number of employees younger than 31 has dropped by 76 percent. A third of current workers are aged 51 or older, as accessions have fallen from some 65,000 a year to about 20,000. This poses problems in the transfer of institutional knowledge.

Second, we are seeing increasing levels of professionalization. While there has been a decline in all major areas, the sharpest drops have been in clerical and blue-collar jobs. The share in professional, technical and administrative jobs has risen.

Third, today's workforce is more highly educated than in the past and that is because today's jobs require more education and training than did earlier ones. Accompanying these changes has been an increase in typical grade level and in average costs.

We clearly have a workforce that is very different from that of a decade ago.

We have worked hard to minimize the trauma associated with the drawdown. Indeed, we have held layoffs to less than 9 percent of total separations. Foremost among our internal efforts has been our Priority Placement Program. Tied closely to that have been the Voluntary Early Retirement Authority (VERA) and the Voluntary Separation Incentive Payment (VSIP) better known as the buyout. We are very grateful for your support with both of these and in related areas as well.

We also owe credit for workforce stability to our labor/management partnerships which have improved relationships, increased productivity and reduced costs.

Unfortunate byproducts of the drawdown include the declining rate of promotions and certain areas of skills imbalance. Another challenge has been to develop leaders for a world of broader responsibilities, more complex missions and fewer resources. That is why we created the award winning Defense Leadership and Management Program. This systematic investment in potential civilian leaders will show dividends far into the future.

Despite the pressures of change, defense civilians have continued to dedicate themselves fully to the department's mission. Outside pressures, though, are taking their toll. Because of the robust American economy, the civil service simply cannot match some private sectors' starting salaries.

While we use the workforce shaping tools I mentioned earlier, we ask for your continuing assistance as we enter the serious right-sizing phase. First we are continuing to develop tools for force shaping. These would provide the flexibility to meet critical mission needs and correct skill imbalances.

For example, some units have downsized and reengineered to where they have the right number of employees, but might not have the right mix of skills. We are looking to modifications of VERA and VSIP in this regard.

We are also seeking to extend the authority for employees to participate voluntarily in reductions in force. Another request will be to restructure the restriction on degree training. To permit us to be more competitive in the labor market, the department is developing a proposal for an alternative hiring system.

You have also expressed interest in our personnel system regionalization and systems modernization. We now have 22 regional personnel centers. We have eliminated 10 non-interoperable data systems. Our new data management system has been successfully deployed to sites in the Army, Navy and the Air Force. After milestone 3 approval later this month, full deployment begins and these efforts will save the department over \$220 million a year.

That concludes my remarks. Thank you again for this opportunity to discuss issues related to our valuable civilian workforce, and I will be pleased to answer your questions.

[The prepared statement of Secretary Disney can be found in the Appendix on page 358.]

Mr. BATEMAN. Thank you very much, Dr. Disney.

Now we will be happy to hear from Mr. Snyder, Deputy Assistant Secretary of the Army for Civilian Personnel Policy.

Mr. Snyder.

Secretary SNYDER. Thank you, Mr. Chairman. I also have more detailed remarks, and I will just summarize those.

Mr. BATEMAN. All of the witnesses' prepared statements will be made a part of the record.

Secretary SNYDER. Mr. Chairman and distinguished subcommittee members, thank you for the opportunity to testify on Army civilian workforce issues and also for your commitment to policies and programs that maintain the high quality of the Federal service.

My statement will discuss the Army's experience with the civilian drawdown, strength projections and related issues.

During the 10-year period that ended 30 September 1999, the Army reduced its total appropriated fund strength by more than 42 percent. When only military functions are included, our civilian strength declined by more than 44 percent during the above period. We are programmed to reach an end strength of a little over 209,000 by 2005. This will be a 48 percent reduction from the fiscal year 1989 level.

We have experienced similar demographic changes to those of DOD as a whole, including a shift toward a greater proportion of the workforce in professional occupations and higher educational levels.

The age and tenure of Army civilians has increased significantly during the drawdown and 30 percent of our professional, administrative and technical workforce will be eligible for optional retirement in 2003, 62 percent in 2010.

To counter the losses we expect, it is critical that we significantly increase our civilian recruitment and entry levels, particularly in the professional, administrative and technical occupations. The Army has an intern program, and that is one of the means and methods that we use to access those who will become our future civilian leaders. We centrally fund our intern program, but it has declined steadily over the years during the drawdown. In 1989, we had a total of 3,800 civilian interns. We will have 950 in fiscal year 2001.

We anticipate greater difficulty in filling journeymen level and leadership vacancies with highly qualified and well trained employees. Given the tight labor market, recruitment competition among employers is intense and the Army, as well as other Federal agencies, are at a competitive disadvantage because of certain requirements and restrictions of the Federal personnel system.

We are participating with the Office of the Secretary of Defense (OSD) and the other components in a development of the DOD alternative system that Dr. Disney referred to. We also have been participating in regionalization and it has been a challenge. We have aggressively addressed the needs of our customers and we will continue to do so, but it has not been easy.

Now, one final thing on the Army civilian workforce. It has been and will continue to be a major contributor to military readiness, performing a wide range of future functions essential to the Army's mission. Over 43,000 civilians of the Army are forward stationed around the globe. Army civilians have provided direct support to operations such as Desert Storm, Haiti and those in the Balkans. And because of this dedication by our Army civilians to this important work, I am especially pleased to have the opportunity to present the Army's views on matters affecting our civilian workforce.

This concludes my remarks. I will be pleased to answer any questions.

[The prepared statement of Secretary Snyder can be found in the Appendix on page 378.]

Mr. BATEMAN. Thank you, Mr. Snyder.

And now we will be pleased to hear from Ms. Welch, the Deputy Assistant Secretary of the Navy for Civilian Personnel.

Ms. Welch.

Secretary WELCH. Thank you, Chairman.

Members of the subcommittees, I am also pleased to be here today to provide testimony about the civilian workforce of the Department of the Navy.

This afternoon I will talk to you about the impact of 10 years' worth of civilian workforce downsizing, where we are now and some of our plans for the future.

Today, as a result of downsizing and reduced hiring, our civilian workforce is 44 percent smaller than it was 10 years ago. We achieved this reduction and minimized the impact on our civilian workforce by using all of the tools available to us, including the DOD priority placement program, outplacement services and the separation incentive pay authorized by Congress in 1993. Before the incentive pay, 56 percent of our separations were involuntary. With incentive pay, that number dropped to 17 percent.

Downsizing left us with a more senior workforce. Ten years ago, only 16 percent of our workforce was eligible for retirement. Today, that figure is closer to 34 percent. This situation is even more troubling when you realize that 47 percent of our engineers, 55 percent of our scientists and 64 percent of our contract specialists will be eligible for retirement in the next 5 years.

The average age of our non-supervisory blue collar employees is 47. In the next 5 years, 53 percent of them will be eligible for retirement. This means we have an older workforce closer to retirement without an adequate number of replacements in the pipeline.

To prepare for the future and to ensure we have a diverse and highly skilled civilian workforce, we recognize the need for attracting, retaining and developing employees ready to meet the Navy's mission. For the professional and administrative workforce, we are supporting our commands in establishing and coordinating a recruiting effort to attract highly qualified individuals. On the blue collar side, the Department of the Navy has a long and illustrious history of hiring and training the best deck plate workforce in the world.

During the past 10 years, as we have closed several of our shipyards and aviation depots, our apprentice programs slowed to a trickle. Today, our systems commanders and the Atlantic and Pacific fleet commanders who are responsible for the department's depot level workforce consider the apprentice program a vital part of their efforts to prepare for the workforce of tomorrow. Thanks to the additional funding received in fiscal year 1999 and fiscal year 2000, our apprentice programs are now being revived.

The well being and development of our current workforce is also an important part of our future. Our focus is in three areas: workforce development, quality of work life and workplace dispute resolution.

First, we are committed to our workforce through programs such as the DOD leadership and management program, the Department of the Navy's civilian leadership development program and continuous learning initiatives for our employees.

Second, we are continuing to encourage our commands and activities to use flexible work arrangements such as job sharing, part-time employment, alternative work schedules and satellite work locations suitable to local needs.

And, finally, we are focusing on workplace dispute resolution, an issue of extreme importance to our employees and managers. In 1997, we launched a reengineering project to look at our equal employment opportunity program. The No. 1 problem cited by both managers and employees was the costly, lengthy divisive process used to resolve equal employment opportunity (EEO) complaints.

With that in mind, we put together a pilot EEO complaint process that deals with these issues and provides a less contentious forum for resolving workplace disputes. We are extremely pleased with the results to date. Our employees at the pilot sites are choosing to take a more active role in early resolution of their disputes. More of the complaints are being resolved informally, and the processing time and costs have been significantly decreased. Based on our positive experience, we are expanding the pilots to several more activities this year.

This concludes my remarks. Thank you for the opportunity to address you, and I would be pleased to answer any questions you may have for me.

[The prepared statement of Secretary Welch can be found in the Appendix on page 391.]

Mr. BATEMAN. Thank you, Ms. Welch. I neglected to mention that a part of your title is Secretary of the Navy for Civilian Personnel and Equal Employment Opportunity, so I can understand why you highlighted that.

Now we will hear from Ms. Mary Lou Keener, Deputy Assistant Secretary of the Air Force for Force Management and Personnel.

Ms. Keener.

Secretary KEENER. Mr. Chairman and members of the subcommittees, I am pleased to join Dr. Disney and other panel members in testifying on these very important issues. It is a privilege to represent the Air Force civilian workforce whose daily contributions ensure the readiness of our force.

The Air Force cannot rely on just one element of our force for readiness. It takes all of our people, military, civilian, Guard and Reserve, their integrated contributions and the synergy and flexibility they create to ensure that we are the preeminent expeditionary aerospace force in the world.

We appreciate the support that the Congress has provided to address military recruiting and retention issues. Our challenges in the civilian workforce are no less serious.

My written testimony addresses these challenges in more detail, but I would like to spend the majority of my time this afternoon and focus my comments on how we in the Air Force plan to address these challenges.

I would like to tell you that we do have a plan to meet these challenges. We have a civilian workforce shaping plan that we feel is specifically geared to satisfy our future Air Force mission requirements. And with your help, we are prepared to begin to execute this plan.

In my written testimony on page 5, there is a colored bar graph, and this graph depicts for you where we anticipate that our civilian workforce needs to be by the year 2005. That graph also outlines for you the three major elements of our workforce shaping plan that will, we feel, assist us to reach our objectives. That plan consists of three major elements. Those major elements, as you can see, are first of all force renewal, force skills, development skills, accuracy and separation management.

In the area of accession planning, force renewal is a priority for us and it is particularly critical in the depots. The depot maintenance community has experienced a decade long hiring restriction

freeze and Base Realignment and Closure (BRAC) actions that have resulted in a severe imbalance in skills and levels of experience.

In the next few years, we will lose more employees, particularly in the blue collar occupations, due to years of service and we need to undertake aggressive hiring efforts.

In the area of force development, the Air Force will invest in training and retraining our current employees to keep them up to date in this rapidly changing environment, but we also need the ability to achieve that third prong of our plan which is to stimulate and manage separations in our workforce.

The voluntary early retirement and voluntary separation incentive programs that you provided us with, and for which we are very grateful, have been very valuable tools to rapidly draw down the force; but we need the ability to offer targeted, voluntary incentives that are not tied to reduction in force and can be used with more precision in shaping the workforce that is needed to meet our mission requirements.

In closing, the Air Force believes that it takes all elements of our total force working together in a seamless manner to sustain readiness. With your help and the tools necessary to execute our workforce shaping plan, we will sustain the best force mix and the best talent to do our job.

We appreciate the opportunity to address these critical issues regarding the civilian component of our force, and I will be happy to answer any questions of the panel.

[The prepared statement of Secretary Keener can be found in the Appendix on page 400.]

Mr. BATEMAN. Thank you, Ms. Keener.

Now we will be pleased to hear from Mr. David O. Cooke, who is Director of Administration and Management of the Office of the Secretary of Defense.

Mr. Cooke.

Mr. COOKE. Thank you, Mr. Chairman. I am here representing what we call the Fourth Estate. Perhaps I had better define that. The Fourth Estate is the Department of Defense which is not in the Departments of Army, Navy and Air Force.

You know, it is really—

Mr. BATEMAN. Mr. Cooke, if you would, pull that microphone a little closer to you.

Mr. COOKE. I will indeed.

The Fourth Estate is composed of defense agencies, defense field activities, and several other defense organizations, not as alike as peas in the pod. Some of these defense agency field activities are very small, some of them represent substantial size, Defense Logistics Agency, for example, or the Defense Finance and Accounting Agency.

The problems in the Fourth Estate, though, are essentially those described by my colleagues, Dr. Disney and so forth. We appreciate the opportunity to be heard on these problems. I can only observe that the Fourth Estate as a group is overwhelmingly civilian, more so than the military departments. It is more heavily white collar and it is more heavily female in composition.

Now, there is a tendency to think that all members of the Fourth Estate are alike and that is simply not true in terms of organization, mission, reporting assignments and so forth. For example, there are some, I think, misconceptions that Washington Headquarters Services is just OSD by another name, but Washington Headquarters Services is an operating function. It supports, for example, all administrative space, General Services Administration (GSA) space, in the National Capital Region. I have a small outfit in Washington Headquarters Services which is responsible for absentee voting worldwide. We are doing some very interesting things, by the way, and seeing whether we can eventually have voting by the Internet.

The Fourth Estate has grown over the years, largely by taking functions which were fragmented among the military departments and pulling them together into a defense agency or a defense field activity, but nonetheless we have maintained our share of reductions along with the military departments. OSD itself, for example, has come down by 33 percent and so there are significant reductions.

We certainly need the things that Dr. Disney talked about to shape the workforce. We support them and I am, of course, available to answer any questions you may have.

Thank you.

[The prepared statement of Mr. Cooke can be found in the Appendix on page 415.]

Mr. BATEMAN. Thank you, Mr. Cooke, and I thank all of the witnesses for being here with us today and providing us with their testimony.

I am intrigued as to some of the statistics. I do not remember them all, I did not write them all down, but we have a DOD wide percentage reduction in civilian personnel. We have different percentages for each of the services.

Could you review for me what the percentage reduction has been since, say, 1989 or whatever date is more convenient so that we have an idea as to the relative size of the downsizing in each of your agencies?

Secretary DISNEY. For the department as a whole, the reduction has been from 1.15 million to roughly 732,000, which is roughly 36 percent.

Mr. BATEMAN. And for the Army, that figure is?

Secretary SNYDER. Mr. Chairman, the Army has gone from 406,000 civilians at the end of September 1989 to approximately today about 220,000. That is roughly 42 percent.

Mr. BATEMAN. And, Ms. Welch, the Navy.

Secretary WELCH. The Navy, sir, in September 1989 we were at about 130,000; December 1999, 184,700 or about 44 percent smaller.

Mr. BATEMAN. And, let us see. Mr. Cooke, in your Fourth Estate?

Mr. COOKE. I would like provide it for the record. You do not want all 14 defense agencies and seven—

Mr. BATEMAN. Yes. You do not have—

Mr. COOKE. Overall, there is a substantial reduction, but that number will be sort of meaningless because some of our larger

agencies have taken much larger percentages than some of the smaller ones and so forth.

Secretary DISNEY. Mr. Chairman, if I could?

Mr. BATEMAN. Yes. Certainly.

Secretary DISNEY. I would like to take this question for the record because even though we know the numbers, there are differences in whether everyone is talking about military and civil functions. So in order to make certain that we are giving you consistent numbers, I would like to be able to provide the data for you.

Mr. BATEMAN. That would be very helpful if you would, Dr. Disney.

Secretary DISNEY. I will do that.

Mr. BATEMAN. Ms. Keener, I did not give you a chance to answer. Excuse me.

Secretary KEENER. Mr. Chairman, in fiscal year 1989, the Air Force stood at 260,000 members. At the end of fiscal year 1999, we were at 165,000 for a decrease of about 37 percent.

Mr. BATEMAN. Okay. There are further reductions in the civilian personnel force contemplated. What is that number?

Secretary DISNEY. Yes, sir. Another 11 percent from the fiscal 1999 levels between now and the end of 2005.

Mr. BATEMAN. Who determined that that number should be 11 percent as opposed to 15 percent or 5 percent?

Secretary DISNEY. That is part of our normal budgeting process, sir.

Mr. BATEMAN. But it is a figure developed by the Department of Defense?

Secretary DISNEY. A department wide effort. Yes.

Mr. BATEMAN. Not something that we in the Congress said you shall reduce by that number?

Secretary DISNEY. Well, there are some instances where the Congress indicates that we should take cuts of a certain magnitude either number or percentage, as in headquarters and as in the acquisition corps.

Mr. BATEMAN. My colleague Mr. Hunter is very prone to be very outspoken on those categories of personnel.

Secretary DISNEY. Yes, sir.

Mr. BATEMAN. Do you have any observations you would like to make on that subject?

Secretary DISNEY. On Mr. Hunter or on reductions? [Laughter.]

Mr. BATEMAN. I am sure we would all praise Mr. Hunter, but on the question of the reductions and whether they are manageable.

Secretary DISNEY. Yes, sir. The department would find it much easier to manage if there were not constraints on specific percentages in specific areas. That would make it perhaps easier to manage to meet the full competency needs for readiness as we have indicated earlier.

Mr. BATEMAN. You have spoken in terms of the number of people and the dramatic increase in the number of people eligible for retirement. Do you contemplate a need for incentives for people not to retire?

Secretary DISNEY. No, sir. We already have retention options that are available to us.

Mr. BATEMAN. So you have some tools to encourage selected skills that are in short supply to remain in the workforce, even though they are eligible for retirement.

Secretary DISNEY. Yes. And we find that a great many people who are retirement eligible do not in fact retire.

Mr. BATEMAN. I have done that for a while myself.

Secretary DISNEY. And we have an example right here at the table.

Mr. BATEMAN. Okay.

Mr. Mica.

Mr. MICA. Thank you.

I am wondering if you have looked at ways to create incentives to stay since it costs so much to train new people; since people are living longer and working longer, is there anything that you have recommended in your legislative package or personnel changes and procedures as incentives to stay?

Secretary DISNEY. No, sir.

Secretary KEENER. I would add, Mr. Mica, that in the Air Force, we have recently executed a 10 percent across the board retention bonus for our Reserve pilots, so that is one initiative that we have just executed.

Mr. MICA. Well, it seems like it would, you know, in an area that is highly technical if you can get these folks to stay on and encourage them—they are going to probably retire, get some retirement benefits and go do the same thing somewhere else, which does not make a whole lot of sense.

Secretary DISNEY. Well, sir, we do have the retention allowances and we are making every effort to make certain that managers across the department are more aware of these so that they can, in fact, be used in areas of skills need.

Mr. MICA. Well, that is, you know, an incentive program. How about has anyone broached the possibility of adding a month on every year in the future toward retirement, we keep them around a little bit longer? What is it to retire now, like 20—well, I guess you can retire just about any time.

Secretary DISNEY. You can take early retirement after 25 years of work at any age, but there is, of course, a reduction in the amount that you would get.

Mr. MICA. What about 25 years and add a month every year?

Secretary DISNEY. That is a very interesting concept.

Mr. MICA. Like we are doing with Social Security. Has anybody proposed any changes in what we have had?

Secretary DISNEY. Yes, sir. There is one option that has been proposed, that has been discussed within the department and that is one that we call phased retirement. That stems from the belief that people are reluctant to retire sometimes for fear of loss of income or fear of loss of sanity. And we have tried to devise a way to address both of those concerns, which would allow an individual to go from full employment to 75 percent time, but be able to draw perhaps on some of the retirement income so that the income loss would not be a problem.

The second year it would be a 50/50 arrangement and then the person would leave. That would provide a rational way of an indi-

vidual moving out but also of bringing somebody in and having an orderly transfer of institutional knowledge.

Now, that is just one idea that has been discussed.

Mr. MICA. Well, it sounds like you have a heap of people that are getting ready or will be eligible to retire and some very strategic, high cost, difficult to replace or train or acquire, in a job market that is becoming increasingly tight and smaller numbers; so I think we ought to be looking at something where we could retain—have some incentives. You know, I would love to have these people greet me at Wal-Mart; but I think that their talents could be better utilized in some of these positions.

I am surprised that the military and civilian employment really has not looked at more incentives to retain good folks and reward them for staying or revised a schedule that was set up.

Mr. Bateman is going to be around and live a long, long time past his retirement.

Mr. BATEMAN. I think the sanity might be a problem. [Laughter.]

Mr. MICA. But he will be looking for something to do.

Of course, we have our own retirement plan that is put in effect by voters, too. It is a little bit different situation. But seriously, it seems to me that we are sort of missing the lick and that a lot of the civilian people are realizing this, that people work longer, they can contribute longer; we should not push them out and then bring in someone at a higher cost, so they have a longer productivity and make some incentives available.

Secretary DISNEY. Yes, sir. This is an issue I agree with you more and more on every passing year.

Mr. MICA. Particularly at your age, you should.

Secretary DISNEY. Bless your heart. [Laughter.]

We would be more than delighted to work with you and your staff on exploring options.

Mr. MICA. You have in the past and I appreciate that. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. Mr. Ortiz.

Mr. ORTIZ. Thank you.

For Ms. Welch, I have a question.

How important was it for the Navy Apprenticeship Program funding to be outside the working capital fund earmarked? In other words, what would happen if the funding were to be rescinded?

Secretary WELCH. First, I think we need to thank you for giving us those funds, and it would be very important to us to continue to have those funds outside of the working capital fund. As you know, that was part of the reason for the degradation in the apprenticeship program to start with and so the continued budget support is most appreciated and is being used very, very well.

Mr. ORTIZ. Very good.

And then for Mr. Snyder, what tools does the Army have in place to ensure that it retains the necessary technical skills in its industrial facility when there are across-the-board reductions ordered? And this is because of prior experiences that we had. At the Army depot, you know, what they did, we said we must downsize, we downsized; but we never took into consideration who was going to be relieved of their duties, who was going to be out, and then we

found ourselves that some of the technical skills that we had were gone. So do we have something in place that will help us maintain those skills?

Secretary SNYDER. That is a two-part answer, Mr. Ortiz, and the first part is when activities downsize, they take a look organizationally and, as a general rule, they do not take out of the workforce skills that they need. That is one of the fundamentals of the way that we run reductions within the Federal Government as a whole.

Now, on the other side, where we come around in terms of accessions, we have what I call—and I referred to it in my statement—an intern program which is for the Army career program's engineers and scientists, and it is basically a white collar program. It is basically a white collar program that while we have those people in that program they are insulated from reduction in force. In other words, they will not be touched by a reduction in force. We are now working with the Army Materiel Command to try to size, and we are working on the requirement to try to get to an appropriate size what an apprentice program should be because we just recently heard from General Coburn who says this is one of his largest needs and so we are trying to get the right size on that requirement even today. And we expect to have it finished some time in the spring.

Mr. ORTIZ. Thank you.

Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Ortiz.

Let me ask, if I might, if each of you could address whether or not in the phraseology of Mr. Brostek, the Department of Defense as a whole and the military components are in the course of or have developed a workforce plan. Do all of you have one or are you in the process of developing one in the context of the testimony of Mr. Cipolla and Mr. Brostek?

Secretary DISNEY. Yes, sir. The Department of Defense historically has not approached the planning for the civilian sector as it has for the military because there are inherent differences between the two. The military has age restrictions, it has an up or out system, it has a mix of floors and ceilings and other kinds of things that make the planning there much more rigid. The civilian sector, though, has no mandatory retirement age and rather than up or out, it is much more of an up and stay kind of model.

For the past 6 years, we have been paying a great deal of attention as a department and as individual components to workforce planning. For example, every 3 months, 3 to 4 months, we bring all of the components in the functional areas together to assess where we were on a great range of demographic characteristics, successions, eligibility for retirement and so forth in 1989 and where we are now. We look at the difference. We have built a micro simulation model that permits us to make projections of where we will be 5 years or so into the future, so we look at where we are likely to be if there are no changes in policies or programs.

If we are not satisfied that we are headed in the right direction, we use those forums to develop legislative proposals or internal programs to change the way we operate. It is that process that has enabled us to come forward with our legislative proposals.

Data analysis—let me talk a little bit more about that. We have commissioned some very special studies to help us in this regard. In one case, Rand Corp. is working with us and the Joint Staff on a study called future worker, future warrior, where we look at all the military and civilian positions we have now and compare them to all other positions. We had a cadre of occupational analysts from a number of areas look at them across five different dimensions as to how likely they were to change in the future and where our need was to be. What we wanted to do was to determine the mix of competencies necessary in 2010 so that we could begin changing our programs and influencing high schools and colleges to change theirs to enable us to yield the right mix from which we could select in the future.

In addition, we have done any number of studies related to the impact of A-76 and other kinds of things, so we have built a body of research that enables us to meet the first important prong of workforce planning which is the database.

The second thing we have done on a department wide basis is increase our investment in education and training. We mentioned the DLAMP program. We have also been working with the acquisition technology and logistics community to identify the key two dozen competencies to be needed in the future so we can restructure the Defense Acquisition University to yield what we will want in the future.

We have been doing a similar thing with the intelligence community. So there are more examples, but those will suffice for now.

And the third is to develop a managed approach to accessions and separations.

So when we put the three of them together, we can say we have a strategy for the department as a whole and then this cascades down to specific plans with somewhat varying details in each of the components.

Mr. BATEMAN. In light of Dr. Disney's very meaningful statement, does any other witness have anything they would like to add?

Mr. Snyder.

Secretary SNYDER. Yes, Mr. Chairman. The Army has a system that is known as Total Army Analysis and I am sure Mr. Hawley has probably been associated with that in the past, but the term Total Army Analysis up until last year was not total because it did not include the civilian part of the workforce. And so what we have done in the Army, what we did in the Army last year was we started the process to include the whole civilian workforce in Total Army Analysis and the TAA process goes out into the out years to—I think it is to about 2010, if not a little bit sooner. But what we have done with that is we use a very sophisticated projection model on the civilian workforce side, which, as Dr. Disney says, will do a very good and accurate job of projecting where we will be absent any policy changes.

We then take our functional chiefs and our career program managers to take a look at the 80,000 or so high level civilians—we have to take a look at their career fields and add into that what they know and believe will come as a result of technology changes and whatever.

At the end of that, we end up with a much more precise slice of what we believe the civilian workforce will look like.

Is it 100 percent accurate right now? No, but it is a lot better than what we used to use.

Mr. BATEMAN. Thank you, Mr. Snyder.

Anyone else?

Secretary KEENER. Yes, sir. I would just like to add that I did briefly describe our plan in my opening statement, but I wanted to add that last month, in February, we executed a civilian workforce shaping summit here in Washington. We brought stakeholders in from all over the country and encouraged them to think out of the box. That is why I was interested in Mr. Mica's comments earlier because these people were encouraged to think about the kinds of things that you were talking about that might aid us in our workforce shaping. Also, I would like to mention that the Air Force Materiel Command (AFMC) is our largest employer of civilians, and they have been engaged in an in-depth study over the last year to try to come up with a plan to right size the civilian force at AFMC and specifically look at the depot force in that command.

Mr. BATEMAN. Thank you very much.

Anyone else?

Yes, Ms. Welch.

Secretary WELCH. The Navy, as you probably well know, is much more decentralized than our fellow components here. Over the last 2 years, we have been working with our highest ranking civilian executives looking at how to shape our workforce for the future because it is a major concern to us.

Mr. BATEMAN. Thank you.

Mr. Cooke.

Well, apparently—are we in recess or do we have votes?

Mr. Cummings, we will call on you as we clarify whether or not this is a recess of the House or whether it is votes.

Mr. CUMMINGS. Very well. Thank you very much, Mr. Chairman.

What are you doing with regard to colleges? Just a little earlier, we talked about training and somebody on the panel before you all talked about how so often when the budget is cut a lot of times training dollars go out or are reduced and I just believe in training because I think any time you can give people an opportunity to become better and to make more money at what they are already doing in the field that they are already in, I think it is really good.

So I was wondering, No. 1, do you all find that to be the case? What kind of training opportunities are there available as you try to restructure it and make the workforce consistent with your needs?

Secretary DISNEY. We are making a very concerted effort within the Department of Defense to dedicate more dollars to education and training but also to use the dollars that we have more effectively, and that cuts across every level of education and training.

Mr. CUMMINGS. So do you use colleges? I mean, in other words—

Secretary DISNEY. We have in our Defense Leadership and Management program, we are offering courses that we do in conjunction with institutions of higher education. We also are proposing some legislation this year that would eliminate the restriction against paying for degrees. That is a barrier to us in some areas

because while it is perfectly legal for us to pay for individual courses and have those courses perhaps lead to a degree, that is not necessarily the same thing as enrolling someone in a degree program for a definite purpose. We would like the flexibility to be able to do the latter because that is better career management.

Mr. CUMMINGS. That legislation, would it have—I mean, what kind of teeth does it have, if any, to make sure that the person once they get the degree, you know, sticks in that job that we are preparing them to do? I mean, is there a certain period of time?

Secretary DISNEY. There is a requirement for staying three times the length of the education or training. Yes, sir.

Mr. CUMMINGS. So where is that now?

Secretary DISNEY. That is in our legislative package, working its way through the process.

Mr. COOKE. Let me tell you a program we run in OSD that does very well. We have authority, as we all do, to bring in interns for the summer, from colleges or what not. We decided to bring in faculty members from the historically black colleges and universities for two reasons: one, they would be a little more mature and we might get some better contributions from them during the summer and, two, they would go back to their campuses and talk up OSD and WHS as being not bad places to work and it has done reasonably well over the years.

Mr. CUMMINGS. Very good.

Mr. BATEMAN. I suspect the committee ought to recess now in order to go and vote, but we will return, if the witnesses will be patient with us, as soon as we can take care of two votes.

[Recess.]

Mr. BATEMAN. The hearing will resume and I will recognize Mr. Underwood for any questions he may have.

Mr. UNDERWOOD. Thank you. Thank you very much, Mr. Chairman, and thank you for your testimony. I have read briefly through some of it and I had a conversation with you just now, Dr. Disney, and perhaps just for the record, I asked a question with the earlier panel about some thinking about how to better provide assistance to workers who are undergoing a dramatic work transition through no fault of their own and what are some of the ideas behind that.

Any kind of new innovative ideas other than the current existing system and what about the issue of how we deal with the term “inherently governmental,” which is kind of certainly a sore spot because it varies from agency to agency, I am sure; but particularly with regards to the Department of Defense.

Secretary DISNEY. Yes, sir. “Inherently governmental” is a term that can vary, the definition of which can vary from agency to agency. As we were talking, what is inherently governmental in the Department of Agriculture may well not be in the Department of Defense. And I think they’re working about as many definitions of that as there are agencies at this particular moment. But we are going through a process within DOD to try to make certain that there is unanimity within the department as to what this means.

Also with the department we have been very concerned about trying to manage the downsizing humanely, not just efficiently, and that is why we have continued to invest in our Priority Placement Program, which is the model placement program, I think, in the

country. This enables someone who is about to lose his or her job for no personal fault at all to find new employment within the department.

The individual registers, perhaps as long as 2 years in advance of a reduction in force, and is retained on the roster as long as the year after that in order to provide an opportunity for them to turn up a position for which the person is well qualified.

The individual registers in areas of competence and then geographic areas of preference. And if there is a position that comes up, that person has that job unless it can be demonstrated that he or she is not qualified.

This has served us very well. Since its founding, it has found new jobs within the department for 161,000 people. Since our drawdown began, it has found new jobs for some 75,000 within DOD.

At the height of BRAC, it was finding them at the rate of 1,000 a month. Now that rate has declined because we have fewer positions into which to put people.

In the situation of Guam, we know that over 200 people were found new jobs within priority placement and others have received new offers. We also instituted a special program called the expanded buyout program that enabled us to pay buyouts in other areas and then relocate someone into that empty position. An additional 40 have been able to continue their employment through that.

So when we add the ones who have received VSIP and VERA, we see that about 500 of the individuals who were facing dislocation through no fault of their own have either found their way into retirement more easily than would otherwise have been the case or have retained their employment. The others are still registered, so there are options that are still available.

Mr. UNDERWOOD. Okay. On the issue of "inherently governmental," in our discussion and certainly in this committee we have heard it before, those activities which are directly related to warfighting and preparation for warfighting, and what strikes me as odd in the particular case of Guam is that we have taken ordnance handling, which I would assume almost anyone would readily admit is preparation for warfighting; it has been contracted out, has been subjected to outsourcing.

It occurs to me that that is quite a stretch and also if the main motivation is saving money and you have a case like a community like Guam, which is many, many thousands of miles away, when you reduce the inherent and the core capacity to respond to military activities out there as has already been the case with lots of people leaving, the time in the future when there may be a bump up or a need to raise the level of activity again, it is actually going to be far more costly because people are going to have to be brought in; and if it is done by the contractor, the contractor is going to put that into whatever additional funding, any modification for their contract; or if it is going to be civil service, then obviously you have a case where you are going to have a lot of people who are "stateside hire" and they are going to be entitled to many, many more benefits.

And it just seems to me that even though it is very difficult to make the case here because they are all civil service employees; but in this particular instance there was—you have what is a forward deployed situation being dealt with as if it was another military installation, you know, with the usual economic environment and usual numbers of people that are available for various kinds of jobs.

But on some of these jobs that are very, very specialized, the capacity is gone and they are now thousands of miles somewhere else.

Secretary DISNEY. Sir, I am afraid I am not totally familiar with all the details of the reasoning for the contracting study and for that I would have to defer to Ms. Welch of the Navy, if she would care to comment.

Mr. UNDERWOOD. Ms. Welch.

Secretary WELCH. I cannot comment any further either as to why that contracting out study was done, but I would be happy to find out and get that information back to you if there is anything further we can add.

Mr. BATEMAN. If you would, supply that for the committee's record for the hearing. We are going to keep the record of the hearing open in the event there are other Members who have questions and have not had a chance to pose them or if staff might have some questions that they feel like we would be benefited from.

Also, for the record, Dr. Disney, you were going to furnish us with the numbers on the drawdown of the various departments and agencies within the Department of Defense. Would it be unduly burdensome to also give to us the number of new contract employees, non-governmental employees, that are now on the payroll and the cost of those people?

Secretary DISNEY. Well, sir, there is no requirement that that information be collected, so consequently there is no database on the employees of the contractors. The database that we have on contracts does not include it anywhere.

Mr. BATEMAN. So you have no basis to determine how many people are now doing services for the U.S. Government under contract relative to the number of civil service employees who have gone away?

Secretary DISNEY. That is correct.

Mr. BATEMAN. Okay.

Mr. Chambliss.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

Ms. Keener, as you correctly note in your written testimony, we are in an increased era of contracting out and privatization as the military and in particular the Air Force outsources new weapons systems.

What impact does that have on the workforce's ability to sustain the systems that are assigned to the government and what is being done to ensure that the government retains the skills to ensure a ready and controlled maintenance capability?

Secretary KEENER. First, Mr. Chambliss, it is our intent to fully comply with the 50/50 rule, the ratio, and right now we are right at that level, so we do not intend to ever go beyond the rule and

contract out to a greater degree, more than 50 percent of that workforce, particularly in depots which I think you are referring to.

On the issue—the second part of your question, what do we intend to do to guarantee that we have a good balance of skills and be able to sustain the force, in my oral statement I described the strategic civilian workforce shaping plan that the Air Force has developed and in that statement I describe the three-prong process that we intend to utilize to do exactly what you have asked.

First of all, we are going to deal with accession planning and that deals with force renewal, which will be particularly important in the area of helping us to bring in new entry level employees in the blue collar area.

The second aspect of our plan deals with training and retraining and that will help us to provide a better balance of the skill mix that we have in our force.

And, last, we talked about the importance of separation management as a part of that plan; and that will assist us to expand our VERA/VSIP authority so that we will be able to use that as a real management tool, rather than just as a reduction in force tool, and selectively be able to narrowly focus those individuals that we want to offer buyouts to.

Mr. CHAMBLISS. The Air Force has previously testified about difficulty in hiring skilled personnel during surge times. Can you talk a little bit about what impediments they do face and what we are talking about doing to overcome those impediments?

Secretary KEENER. In certain areas, specifically, in high tech areas, information technology, those particular areas that we really need skilled people for, it is particularly difficult to find those people and to bring them into the workforce, but we are doing everything that we can to utilize initiatives in the area of force renewal to be able to attract these people to the Air Force. We recognize that there are severe impediments out there. We are dealing with a very robust economy. But some of the specific initiatives that are in both Dr. Disney's testimony and in my testimony we are targeting to help us to bring in a new entry level force.

Mr. CHAMBLISS. Well, realizing that we are in a little bit different economy from what we were in in 1991 and 1992, when we were last required to really surge, are we looking ahead to the potential impediments that may be there and do we feel confident in the event of a near-term conflict we are going to be able to reach out and fill that surge capacity problem?

Secretary KEENER. Yes, sir. I think we do. And the plan, as I described it in my statement, projects—this plan is really based on what we perceive to be our mission requirements in the year 2005. So this plan is not just a plan to try to bring in people that we need, this is a real plan that is geared to what our mission requirements will be and that will actually help us to achieve that state of readiness that we know we need to be at.

Mr. CHAMBLISS. Dr. Disney, I have heard complaints over the last several years, 6 years, from quite a number of my constituents who work at Robins Air Force Base about the lack of increases in the wage grade pay scale compared to other areas of the State.

Can you explain why a worker, say an electrician, at Robins Air Force Base, might be paid at a certain level while a worker doing

the same job in Atlanta, which is less than 100 miles away, might be paid at a higher rate or a worker doing the same job at another government agency in Warner Robins would be paid at a higher rate?

And also why have the general schedule employees received pay increases equal to twice the amount of the wage grade people over the last 14 years?

Secretary DISNEY. Yes, sir. The general schedule and the blue collar workers find their wages set in different ways. For the general schedule, the wages are set on a national level, with the increases set nationally; and a portion of the national increase is set aside for locality adjustments. A very small portion of that. But what it means is that the core wage of a GS worker in Washington, DC, is the same as that in Macon, is the same as that in Portland, OR.

The Federal wage system employees, on the other hand, find their wages based upon prevailing wages in the geographic area in which they are located, generally the commuting area. These wage areas are determined through the work of the Federal Prevailing Rate Advisory Committee, which is advisory to the Office of Personnel Management.

That consists of both union representatives and civil service agency representatives. The wage surveys are conducted by people in my organization in conjunction with their labor counterparts; and that is where the information comes from, from surveys of the area that get used to establish what those rates are.

Mr. CHAMBLISS. Yes, well, I understand that, but I mean, you have—for example, in our depot, you have specialized jobs that there are not many jobs like that in the area immediately surrounding the depot. But there are those same jobs at Lockheed, for example, and in Atlanta, which is, like I say, less than 100 miles away and certainly within—we have folks that commute every day back and forth to Lockheed and from Atlanta down to the depot, and the wage rate in the Atlanta area is not used at the depot. It is not in our prevailing wage schedule.

Why would that be the case when there is nobody else in that category within the local area there?

Secretary DISNEY. Well, sir, I do not have all the details on that, but I would be more than happy to find them out and to provide information for the record for you.

Mr. CHAMBLISS. All right. If you would, please.

Secretary DISNEY. Yes, sir.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

Mr. BATEMAN. Thank you, Mr. Chambliss.

Dr. Disney, I was just handed the conference report on the National Defense Authorization Act for Fiscal Year 2000 and I do not want you to bother with it today, but on page 60, section 343, it says “Report on use of employees of non-federal entities to provide services to the Department of Defense.”

I think I know the answer, but the law calls on the Secretary of Defense to provide a report and give information. It has some caveats in it, to the extent practical. I think your answer is going to be it is not practical, but get us a formal response to why we do

not have the report and why you cannot, if that is the case, provide the report.

Secretary DISNEY. Yes, sir. We will do that.

Mr. BATEMAN. Okay. Well, I believe that is certainly more than enough time for you all at the witness table today. We do appreciate your being here and your testimony. If you would be so kind, we may have further questions that you can submit answers to for the record; and we adjourn with our thanks to the witnesses.

[Whereupon, at 3:22 p.m., the subcommittees were adjourned.]

A P P E N D I X

MARCH 9, 2000

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 9, 2000

DAN BURTON, INDIANA
 CHAIRMAN
 BENJAMIN A. SALMAN, NEW YORK
 CONSTANCE A. NOBLE, MARYLAND
 CHRISTOPHER W. DAVIS, CONNECTICUT
 ALEANA ROSS, FLORIDA
 JOHN M. McLEISH, NEW YORK
 STEPHEN LEAH, CALIFORNIA
 JOHN L. MCCAFFEE, FLORIDA
 THOMAS W. CRAIG, VIRGINIA
 DAVID M. WINTOSH, INDIANA
 MARI E. SLODZ, INDIANA
 JOE SCARBOROUGH, FLORIDA
 STEVEN C. LITVINETTE, OHIO
 MARSHALL WARE, SOUTH CAROLINA
 BOB BARR, GEORGIA
 DAN MALLER, FLORIDA
 ASA HUTCHISON, ARIZONA
 LEE TERRY, NEBRASKA
 JUST BRIGGETT, ILLINOIS
 GREG WALDEN, OREGON
 DOUG ODE, CALIFORNIA
 PAUL RYAN, WISCONSIN
 HELEN CHENOWETH, IOWA
 DAVID HYTTER, LOUISIANA

ONE HUNDRED SIXTH CONGRESS
Congress of the United States
House of Representatives
 COMMITTEE ON GOVERNMENT REFORM
 2157 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515-6143

Mailbox 1202 225-5074
 Message 1202 225-5091
 TTY 1202 225-6862

PERRY A. WAGMAN, CALIFORNIA
 RANKING MEMBER
 TOM LANTOS, CALIFORNIA
 ROBERT E. ROSE, JR., WEST VIRGINIA
 MAJOR R. OWENS, NEW YORK
 EDDIE PAUL TORRES, NEW YORK
 PAUL E. KANAWASKI, PENNSYLVANIA
 PATRICIA M. HANRAHAN
 CAROLYN B. MALONEY, NEW YORK
 ELEANOR HOLMES NORTON
 DISTRICT OF COLUMBIA
 CLARA FARRAR, PENNSYLVANIA
 ELLIOTT E. CLUMMING, MARYLAND
 DENNIS J. RUGGUCK, OHIO
 ROD R. BLACKEY, ILLINOIS
 DANIEL E. CLARK, ILLINOIS
 JOHN F. TERRELL, MASSACHUSETTS
 PHILIP R. TURNER, TEXAS
 THOMAS H. ALLEN, MAINE
 HAROLD E. FORT, TENNESSEE
 JAVIER D. SCHAKOWSKI, ILLINOIS

BERNARD SANDERS, VERMONT
 INDEPENDENT

STATEMENT
THE HONORABLE JOE SCARBOROUGH
MILITARY READINESS SUBCOMMITTEE
AND
CIVIL SERVICE SUBCOMMITTEE
JOINT HEARING

CIVILIAN PERSONNEL READINESS
March 9, 2000

Thank you, Mr. Chairman. I appreciate this opportunity for our two subcommittees to jointly examine the readiness of the Department of Defense's civilian work force. The ability of that workforce to support the military mission of our armed forces is vitally important to our national security, and I commend you, Chairman Bateman, for initiating this important inquiry.

I also want to thank you and your staff for the close and cooperative way in which our committees have been able to address the civilian personnel issues that invariably arise as you consider defense authorization bills. I look forward to continuing that cordial and productive working relationship as we work together to ensure that our service men and women receive the support they need from the Department of Defense's nonmilitary resources.

For too long, when addressing the question of readiness, Congress has focused its attention almost exclusively on the military workforce. We have failed to focus attention on civil

servants within the Department of Defense. This joint hearing will attempt to study issues that have not been examined in depth for too long.

We must plan for the future today. The twenty-first century is here, and it is time that we begin to develop long-range planning to ensure that the civilian workforce of the twenty-first century will meet the needs of the twenty-first century military. The first question Congress must address, therefore, is what the military missions of the future are likely to be. Only when those missions have been determined can we intelligently begin to analyze the Department's requirements for its civilian workforce.

As we continue our review of this issue, I will demand assurances from the Department of Defense and the military departments that the various personnel recommendations they make are based upon a careful analysis of our future military needs and are fully integrated with military planning. I will expect clear explanations from the Department of Defense of the job skills its workforce will need to support expected military missions, and a comparison of its current capabilities with those needs. And I will also expect proof that any recommendations we receive as we begin to work through the defense authorization bill and other relevant legislation are based upon a clear, well-thought out plan to bridge the gaps between what we have today and what we will need for tomorrow. This will encompass not only plans for attracting well-qualified employees, but also training and re-training the current workforce.

We must also ensure that today's work force is capable of meeting today's needs. Therefore, I will ask the Department of Defense to identify for our committees the critical short-term problems that it faces and its proposals for resolving them.

Mr. Chairman, we have all heard from agencies about the challenges they face because of an aging work force. I will look for a clear explanation of why an older workforce is a problem,

not just a demographic fact. And I will also want to examine the question of whether agencies need more flexible benefit packages, including portable retirement systems, to attract and retain employees with the skills they will need.

Joint hearing on Civilian Personnel Readiness,
March 9, 2000

Testimony of Frank Cipolla,
Director, Center for Human Resources Management,
National Academy of Public Administration
before the
House Armed Services Committee,
Subcommittee on Military Readiness,
and the
Government Reform Committee,
Subcommittee on Civil Service

Good afternoon.

On behalf of the National Academy of Public Administration, I appreciate the opportunity to appear before you today to discuss civilian personnel readiness.

The National Academy of Public Administration is an independent, non-profit, non-partisan organization chartered by Congress to improve governance. Academy Fellows and staff provide expert advice and counsel to government leaders.

The Academy's work is organized by centers of excellence, one of which is the Center for Human Resources Management. The Center conducts research, benchmarking, best practice studies, and educational programs on human resources management in the public sector. A consortium of 65 government organizations, mostly federal, helps to support the Center and specifies an annual work agenda. We also respond to requests from specific agencies for assistance in a wide variety of human resources management issues, including workforce planning, recruitment, retention, human capital development,

classification, and the impact of information technology on the HR function and on the federal workforce.

Our recent work has included a number of subjects relevant to this hearing.

- An examination of best practices used by organizations to identify and meet future workforce requirements.
- A study of current practices in obtaining contingent workers and recommended steps that agencies can take to getting work done by a flexible workforce.
- An evaluation of current hiring mechanisms and recommendations to improve the government's ability to attract and retain the best talent available.
- An assessment of the effects of downsizing on government and private sector organizations.
- Analyses of the current job classification system and recommendations for needed change.
- An analysis of the need for and techniques for effective succession planning.

I have included a listing of the Academy's studies and reports on these subjects; we can make the publications available for the record if you wish.

Background

Civilian personnel readiness is an important subject. Projecting the role and composition of the civilian component of the total force is a continuing challenge—even more so as agencies look ahead and attempt to build the workforce from where downsizing and

restructuring left it. There is no doubt that the task faced by DOD and its components to assure that the right people are in the right place at the right time, is more daunting than ever. They are searching for answers to questions about what civilians will be doing, what is the right civilian-military mix, what are the competencies, or skill sets, that will be needed, how will the skills and knowledge of the current workforce be updated, what is the best approach to recruiting for scarce skills, and what needs to be done to retain senior-level expertise in key occupations.

Most agencies are facing these or similar questions after spending the better part of the last decade trying to manage downsizing, keeping the adverse impact on people to a minimum, and working to get maximum productivity from the workforce that is left—all while still adhering to merit principles that have been the foundation of federal employment since 1883. Federal managers now find themselves in a “war for talent”—trying to compete in a tough market and making decisions about human capital investment. Government and the private sector alike are discovering that they can’t address these questions in a rational and defensible way without instituting a systematic process of workforce planning. Last year the Academy looked at 17 federal agencies and found that most of them were beginning to do just that.

We have been working individually with several agencies, including the Forest Service, the U.S. Department of Agriculture, the Navy, and the Defense Information Systems Agency, on their workforce planning initiatives. We have also examined how private companies approach the challenge of building the future workforce. From this

experience we have reached some key conclusions about the subject of building a workforce to meet current and future mission requirements.

1.) **Workforce requirements must be linked to the agency's overall strategic plans.**

Agency strategic plans must have a "people component". They must have a process to help anticipate and prepare for changes in the workforce. Without a strategic workforce planning process, agency leaders and managers react to circumstances, implementing solutions that may not address the real needs of the organization. Whatever process is used by the organization to develop its plans and objectives concerning its mission, functions, work processes and technology applications, it must include an assessment of the capabilities of the current workforce compared to those required of the future workforce. Based on the gaps between the current workforce and the future need, the organization can develop plans rationally to meet the identified future needs.

Organizations must be able to make decisions about merit-based human capital recruitment, retention and development on a recurring basis. Strategic workforce planning helps ensure that these decisions are guided by data based projections and profiles of the workforce required to accomplish tomorrow's mission successfully.

2.) **Workforce planning must include the collection and analysis of data about the external environment as well as information about the current workforce.**

Several trends will shape the workforce and the workplace over the next five to ten years, according to various sources included in our studies.

- Skill shortages are expected to continue in areas critical to the missions of many federal agencies. Examples include information technology professionals and health care workers. According to the federal Chief Information Officers Council, there are currently 63,000 information technology jobs in the federal sector. This number is expected to grow to about 70,000 by 2006. During that period there will be a need to hire 4,600 workers to fill the new jobs and 32,315 more to replace workers lost by attrition.
- Retirements will exacerbate these shortages as increasing numbers of baby boomers reach retirement age. In 1998 the average age of federal civilian employees was 45.9 years with 16.9 years of service. As of the end of fiscal year 1999, 28% of the DOD civilian workforce was eligible for retirement.
- This retirement wave, in conjunction with the low level of hiring in federal agencies over the last several years, has resulted in a serious shortage of well-qualified individuals coming up through the ranks. "Bench strength" is seriously thin in many cases.
- The American workforce will become increasingly diverse, with minorities accounting for 27% of the workforce in 2006. By 2006, one third of new labor force entrants will be minorities and one half will be women.

- Technology will make possible alternative work arrangements such as virtual work teams and telecommuting, thus providing flexibility in who does work, when it gets done, where it takes place, and how it is organized.
- The newer generations of employees have different values and expectations. Many place a greater premium on opportunities to learn, a work life-personal life balance, independence and creativity, and flexible work arrangements. The relative security offered by federal jobs is no longer an important factor for many generation X'ers who expect to change jobs frequently to learn new skills, earn a higher salary, and make a variety of contributions.
- As a result of the knowledge explosion, new technology and the rise of the global economy, the requirements for individual and organizational success have changed. Workers must be able to master new roles and the associated competencies as traditional, more narrowly defined jobs give way to multiple roles which can change frequently. The ability to learn quickly and continuously is becoming the principal source of competitive advantage for both individuals and organizations.

3.) **Projections of future workforce requirements must be expressed in terms of needed skills and competencies, not just numbers of full-time permanent employees.**

In today's knowledge-based work world, federal managers must define the skills and competencies needed to accomplish the work of their organizations. These requirements must be periodically reexamined and updated. The IT field is changing so rapidly that the half life of technical knowledge is growing shorter each year.

Jobs are evolving into a range of broad roles requiring less specialization. For example, the human resources professional will no longer be judged competent if he or she only knows the laws, rules and regulations for processing personnel actions. The successful professional must be a strategic business partner with line managers, a HR substantive expert, a leader, a change agent, and an advocate. In addition to mainstream technical skills, IT professionals must acquire competencies in areas such as policy and organizational knowledge, information resources strategy and planning, IT acquisition, IT performance assessment, capital planning and investment assessment, change management, and management.

4.) **Decisions on the composition of the future workforce should consider the use of flexible employment arrangements.**

Increasingly, the “right people” for getting the job done in the future will be a mix of workers and a mix of employment arrangements. If the number of civil service employees is further reduced, the number of contract and temporary workers will increase. Many agencies already have more contract workers than civil servants. As noted in the January 2000 issue of *Government Executive*, “By 1997 the government was spending nearly as much on service contracts, \$110 billion, as on the federal payroll, \$113 billion.” With the passage of the Federal Activities Inventory Reform Act (FAIR) and the growing interest in alternative work acquisition, these trends will continue.

Even within the more traditional employer-employee relationship, more flexible employment arrangements will be necessary if the federal government is to attract and

retain the best-qualified workers. These arrangements include part-time employment, job sharing, alternative work schedules, telecommuting, perhaps even alternatives which allow for the structured movement between federal positions and private sector employers providing similar or identical services to the government. The Academy's recent study on the flexible workforce found that 68% of American workers have other than traditional work schedules—defined as fixed hours during the day from Monday to Friday. Part-time workers account for 19% of the total workforce, compared to only 7% of the federal workforce. Three percent of workers nationwide are telecommuters and this number is expected to grow rapidly.

5.) **Managers must be given maximum flexibility in managing work and assigning staff to meet changing mission and program requirements.**

The predominant theme of the trends I have described is that speed and flexibility will become the key determinants of organizational effectiveness. The mission and work requirements of the future will change quickly and often, driven by a changing environment, revised work processes and emerging technology. Federal managers must have the flexibility to redirect the workforce when these changes occur within their organizations.

The lack of flexibility in and a sense of accountability for major human resource management (HRM) functions such as hiring, classification, pay, performance management, and human resource development severely diminish the effectiveness of these programs, and therefore the effectiveness of line managers, their employees and

their organizations. Managers should be able to adjust work and people to meet mission demands in the most effective and efficient manner possible consistent with merit and EEO principles.

A number of countries, including Canada, New Zealand and Australia, have in recent years profoundly restructured their civil service systems to allow greater flexibility and responsiveness. These efforts are worth considering because they suggest that it is possible to restructure civil service systems while maintaining a merit based foundation. While these alternatives deserve serious consideration for long-term change, we believe that it is useful to suggest limited changes to the current system that could greatly improve its responsiveness and effectiveness.

The current classification system establishes a rank in position system, with 15 levels or grades on a sliding pay scale. There is about a 30 percent pay range per grade. This system, developed in the 1940's, is inconsistent with work requirements today. And it will become even more inconsistent with the work requirements of the future.

One approach to making the classification system work better is to give line managers the authority to classify positions. Since the Navy implemented a "Manage-to-Payroll" system in 1986, which gave managers classification authority along with responsibility for the payroll budget, other agencies have delegated classification authority either permanently or on an experimental basis.

Perhaps the most significant reform option that has been attempted is broad banding, in which the 15 pay grades are collapsed into three or four broad bands. This gives managers much more flexibility in assigning work, it speeds up the process of filling positions and reassigning staff, and significantly reduces paperwork. Unfortunately, broad banding has become identified essentially as an alternative pay system and not enough attention has been given to its value in providing flexibility for line managers in managing work, assigning staff, and designing more efficient organizations.

6.) **Human capital development and continuous learning should be viewed as an organizational investment and given a high strategic priority.**

The amount of knowledge and breadth of skills needed by federal employees is growing and changing more rapidly than ever. Federal agencies need to transform training programs into an ongoing process of re-skilling and re-tooling the workforce to acquire and maintain the competencies needed to keep up with changes in mission, technology, and the content of work itself. What employees need to learn should be guided by the skills and competencies identified by the strategic workforce planning process. This continuous learning approach will not only help agencies keep the capabilities of their existing workforce ahead of the change curve, it will also help attract and retain younger people for whom self-development is a top priority.

Benchmarking studies of private firms conducted by the American Society for Training and Development over the past several years have consistently shown that firms with high levels of investment in training also have better performance as measured by sales,

profitability, and quality of products and services. Leading companies spend an average of more than 3% of payroll on training. Reliable data on federal agency expenditures is not available; however, anecdotal information suggests that most spend considerably less.

Another important priority for developing human capital in the federal government is to recruit, hire, and develop entry-level workers from among the best of recent college graduates. Many good programs are already in place; agencies simply need to devote greater management attention and resources to them. Student intern programs have been successful in several agencies and need to be expanded across government. The Presidential Management Intern program has proven to be an excellent means of attracting outstanding talent to the federal service.

7.) **Retirement incentives should be used selectively to support restructuring and to retain needed talent in scarce skill occupations.**

The reduction of 351,000 positions, or 16% of the workforce, between 1993 and 1998 was a remarkable accomplishment. Two thirds of these reductions came from defense components. Federal-wide downsizing targeted headquarters positions, high grade levels, supervisory positions and administrative positions such as budget, procurement and human resources. It was accomplished with the help of tools like optional buyouts and other incentives. In some cases, buyouts were used selectively to protect hard-to-fill positions. However, as a general rule, buyouts and other incentives were not targeted to employees doing unnecessary or marginal work. Nor were they generally targeted to

employees whose skills were obsolete. Skill imbalances resulted in some organizations, along with work backlogs and loss of institutional memory.

Because downsizing occurred 25 to 30 years after a period of growth in federal employment, because it targeted highly paid employees and supervisors, and because it used buyouts that appealed mainly to employees who were eligible to retire, agencies lost a substantial part of the generation of federal employees who started their careers in the 1960's. These employees represented a disproportionate share of the knowledge and expertise that existed in the workforce. They were the mentors, coaches and models for the employees they left behind. Succession planning, internships, apprenticeships and other developmental programs were disrupted or not started. Remaining employees already dispirited by the loss of these respected colleagues were asked to absorb their workload without the benefit of their experience and knowledge, and without change to governing laws and regulations.

If future restructuring of the workforce is necessary due to changing mission requirements, it should be based on a strategic workforce plan that identifies the skills and competencies required to accomplish the work. Selective use of retirement incentives, consistent with strategic workforce planning, should help achieve the organization's objectives.

Conclusions

The work world of tomorrow will be profoundly different for most organizations and, for that reason alone, agencies need an ongoing workforce planning system to assure maximum readiness. Let me review the key points I have just discussed. I believe they are essential if we are to compete successfully for the best and the brightest talent to accomplish the vital work of the federal government.

- Workforce requirements must be linked to the agency's overall strategic plans.
- Workforce planning must include the collection and analysis of data about the external environment as well as information about the current workforce.
- Projections of future workforce requirements must be expressed in terms of needed skills and competencies, not just numbers of full-time permanent employees.
- Decisions on the composition of the future workforce should consider the use of flexible employment arrangements.
- Managers must be given maximum flexibility in managing work and assigning staff to meet changing mission and program requirements.
- Human capital development and continuous learning should be viewed as an organizational investment and given high strategic priority. More attention and resources need to be devoted to entry-level hiring and development of the best of recent college graduates.
- Retirement incentives should be used selectively to support restructuring and to retain needed talent in scarce skill occupations.

Thank you. I will be glad to answer any questions you might have.

Attachments

Attachment

RECENT PUBLICATIONS OF THE NATIONAL ACADEMY OF PUBLIC
ADMINISTRATION ON TOPICS RELATED TO THIS HEARING

- *Building the Workforce of the Future to Achieve Organizational Success*, 1999.
- *New Options, New Talent: The Government Guide to the Flexible Workforce*, 1998.
- *Entry-Level Hiring and Development for the 21st Century: Professional and Administrative Positions*, 1999.
- *Effective Downsizing: A Compendium of Lessons Learned for Government Organizations*, 1995.
- *Downsizing the Federal Workforce: Effects and Alternatives*, 1997.
- *Innovations and Flexibilities: Overcoming HR System Barriers*, 1997.
- *Managing Succession and Developing Leadership: Growing the Next Generation of Public Service Leaders*, 1997.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Military Readiness,
Committee on Armed Services, and the Subcommittee on
Civil Service, Committee on Government Reform,
House of Representatives

For Release on Delivery
Expected at
1:00 p.m., EST
on Thursday
March 9, 2000

HUMAN CAPITAL

**Strategic Approach Should
Guide DOD Civilian
Workforce Management**

Statement of Michael Brostek, Associate Director
Federal Management and Workforce Issues
General Government Division

and

Barry Holman, Associate Director
Defense Management Issues
National Security and International Affairs Division



Statement

Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management

Chairman Bateman, Chairman Scarborough, and Members of the Subcommittees:

I am pleased to be here today to discuss civilian personnel downsizing in the Department of Defense (DOD) and a framework that could be useful for approaching its human capital management challenges in the future. I understand that concerns about an aging workforce, and a desire to explore its implications for the future, provided an important impetus for this hearing. Today, I want to (1) provide some perspectives on why this is an opportune time to consider human capital management in DOD, and (2) discuss the human capital self-assessment checklist that we have developed to help agency leaders focus on improving management of their most important resource: the people who carry out the agency's mission.

In summary, a number of factors suggest that this is an especially important time for DOD to assess its human capital policies and practices. One overarching reason for assessing these policies and practices is that high-performance organizations in both the public and private sectors have come to recognize that people are an organization's key asset. It is through the talents and dedicated work of staff that missions get accomplished. Therefore, sound management principles call for continually reassessing and adjusting human capital management practices to ensure that such practices are adapted to a dynamic environment.

DOD has undergone a very significant downsizing of its civilian workforce. This downsizing is expected to continue through the first half of this decade, resulting in a total reduction in the civilian workforce of about 43 percent from 1989 levels. In part due to the staffing reductions already made, imbalances appear to be developing in the age distribution of DOD civilian staff. The average age of this staff has been increasing, while the proportion of younger staff, who are the pipeline of future agency talent and leadership, has been dropping.

To cope with downsizing, as well as to become more efficient, DOD also has numerous reform initiatives under way to change the way it does its business. These efforts are expected to continue into the foreseeable future. Of course, changes in business practices can affect the kinds of competencies that staff must have to efficiently and effectively carry out their responsibilities. Developments like these call for a strategic approach to human capital planning. In a broader sense, assessing human capital management policies and practices also is consistent with the management framework that Congress has adopted to focus agencies' attention on managing for results.

To help agencies assess their human capital management policies and practices, we have developed a five-part self-assessment framework we believe can be useful in aligning human capital management with agencies' missions, goals, and other needs and circumstances. Federal agencies—DOD included—can and must define the kind of workforce they will need in the coming years, develop plans for creating that workforce, and follow up with the actions and investments needed so that when the future arrives, the right employees—with the right skills, training, tools, structures, and performance incentives—will be on hand to meet it. The framework, whose parts, of necessity, are interrelated and overlapping, includes:

- Strategic planning
- Organizational alignment
- Leadership
- Talent
- Performance culture

I would like to focus first on why this is an opportune time to assess human capital management in DOD, and then go on to further discuss the framework that we believe would be a useful tool in doing this assessment.

The Time Is Right to Assess Human Capital Management

Traditionally, strategic human capital planning has been a weak link in the management of federal departments and agencies. Federal employees account for so large and visible a share of the operating costs of most federal agencies that they have often been viewed through the budgetary lens, and been seen primarily as costs to be cut rather than as assets to be appreciated. But for federal agencies to keep pace with a fast-changing and increasingly demanding environment, a new kind of thinking will be required. The traditional view of employees as mere costs must be supplanted by a strategic approach to managing people—one that recognizes their worth and integrates their management into the strategic and programmatic concerns of every federal department and agency.

We at GAO use the term "human capital" because—in contrast with traditional terms, such as "personnel" and "human resources"—it focuses on two principles that are critical in a performance management environment. First, people are assets whose value can be enhanced through investment. As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders. As with any investment, the goal is to maximize value while managing risk. Second, an organization's human capital approach must be aligned to support its "shared vision"—that is, the

mission, vision for the future, core values, goals, and strategies—by which the organization has defined its direction and its expectations for itself and its people. An organization's human capital policies and practices should be designed, implemented, and assessed by the standard of how well they help the organization pursue these intents.

These concepts are especially relevant in considering the approaches to managing people at DOD. DOD employs over 700,000 civilians—some 37 percent of all non-postal civilian federal workers. Because DOD is the largest employer of federal employees covered by title 5 of the U.S. Code—the competitive civil service—how DOD approaches human capital management sends important signals about trends and expectations for federal employment across government. More important, the role that DOD's civilian workforce plays in support of our national security makes DOD's approach to managing its people a matter of fundamental public interest.

In some ways, DOD's situation is like that of other federal departments and agencies—they must deal with the myriad of social, economic, and technological changes that have become a constant in our society and our world. These changes inevitably affect the way government entities must do business, and should make departments and agencies acutely aware of how much they rely on their human capital to do the people's work. Agencies have experienced ever-growing public demands for better and more economical delivery of products and services. In line with these public demands, Secretary Cohen's Defense Reform Initiative has the objective of achieving a "revolution in business affairs." Some, if not many, of these reform initiatives will require innovative use of new technologies. This will require not just new hardware and software, but also a workforce with new knowledges and skills. Agencies also face an economy in which the competition for people with the competencies needed to achieve and maintain high performance has become an ever-growing challenge.

Regarding human capital management at DOD, I must note that we have not recently examined DOD's overall approach to managing its civilian workforce, nor can we speak to human capital programs or innovations that DOD may have recently considered or implemented. Our evaluations and reports on broad DOD civilian workforce issues—specifically, those related to downsizing—have been more limited and narrow in focus in recent years than in the early 1990s. In those years, when DOD was in the initial stages of what turned out to be more than a decade of continuous downsizing, we completed a variety of evaluations broadly focusing on DOD's management of downsizing and the challenges it faced. Our

Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management

evaluations and reports in recent years have tended to focus more narrowly on selected aspects of downsizing or specific programmatic issues, such as base closures, depot maintenance, and competitive sourcing. Although they do not provide comprehensive treatment or the final word on how DOD has managed its civilian workforce, these reviews nonetheless have served to highlight a variety of human capital issues that can provide some context for today's hearing.

DOD Downsizing

DOD has been in a sustained period of civilian workforce reductions since fiscal year 1989, and additional reductions are expected at least through fiscal year 2005. The issue of an aging workforce and its potential to adversely affect future mission accomplishment is one that has been with DOD since the beginning of its downsizing, and it remains an issue today. Likewise, concerns have existed over time about the overall impact of civilian force reductions on mission accomplishment and readiness.

Magnitude of Downsizing and Contrasting Approaches to Military and Civilian Reductions

As figure 1 below shows, between fiscal years 1989 and 1999, DOD reduced its civilian workforce by about 400,000 positions, from approximately 1,117,000 to 714,000—a 36-percent reduction.

Figure 1: DOD Civilian Workforce Trends (Fiscal Years 1989 to 1999)



Source: DOD

These reductions have been achieved primarily through base closings and realignments and through attrition facilitated by retirement and separation incentives. Even so, DOD continues to face varying pressures for additional reductions, such as legislative mandates for further headquarters reductions. In addition, DOD will be studying activities that have over 200,000 positions currently held by civilians for potential outsourcing to the private sector under OMB Circular A-76.¹ The Defense Reform Initiative also holds the potential for additional force reductions as business process reengineering and related reforms are implemented, creating uncertainty over how low civilian employment levels are likely to fall within the next several years. Currently, the President's fiscal year 2001 budget request projects additional reductions in DOD's civilian workforce, down to a level of 637,500 by fiscal year 2005—a cumulative reduction of nearly 43 percent from the fiscal year 1989 level.

¹ DOD expects to study activities involving over 200,000 positions for potential outsourcing between fiscal years 1997 and 2006, under its A-76 program. The number of civilian government positions likely to be eliminated remains uncertain. Historically, both federal employees and private sector companies win a large portion of the competed activities. Studies involving only about 5,000 positions were completed as of the end of fiscal year 1999. To the extent that DOD relies on contracting in connection with downsizing, it will be important that its workforce has sufficient capacity to manage the cost and quality of these contracts.

Between 1987 and 1999, the active component military workforce underwent similar large-percentage reductions. However, important differences have existed in DOD's approach to downsizing these respective components—differences that are tied to the unique nature of military force structure and available legislative authorities¹—which nonetheless can serve to highlight problems that can occur in downsizing that is not done in a balanced manner.

We previously reported on differences in DOD's approaches to managing its uniformed military and civilian-force reductions.² Because of the unique nature of the military employment system, the Office of the Secretary of Defense, in managing force reductions for its uniformed military, followed a policy of trying to achieve and maintain a degree of balance between its accessions and losses in order to "shape" its uniformed forces with regard to such matters as rank, specialties, and years of service. The policy implementation included some reductions in accessions and in staff eligible for reenlistment and increases in retirements among those eligible to do so, as well as increased voluntary separations among those with more than 6 years of service. DOD recognized that without this approach, the services could have been faced with skills imbalances, promotion and career stagnation, and a more senior work force with higher personnel costs and many senior persons doing lower level work.

Shaping the force to avoid these problems involved achieving a larger number of mid-career attritions than would be the case if one focused primarily on limiting the accession of staff to achieve end-strength goals. Even so, execution of the military drawdown actually resulted in a greater reliance on restricted accessions than was desirable. As a result, according to a recent DOD report, the portion of its current military workforce with 2-12 years of service is smaller than it has been in the past and poses a greater challenge to the services in maintaining the desired balance and shape of the force in such categories as years of service and rank.³ The need to achieve a high level of retention among this group is receiving increased attention. Using data from DOD's survey of active duty

¹ Fundamental differences exist between the military and civilian employment systems. Whereas the military operates a more "closed" system, under which employees are brought in, with few exceptions, at entry levels and progress upward, the civilian system is more "open," with employees brought on board for either entry level or higher level positions, depending upon agency requirements.

² Defense Force Management: DOD Management of Civilian Force Reductions (GAO/NSIAD-02-10, Feb. 20, 1992).

³ Report on Personnel Retention, prepared by the Office of the Assistant Secretary of Defense for Force Management Policy (Jan. 1999).

personnel, we recently issued a preliminary assessment of factors that influence the retention decisions of service members.⁶

In contrast, DOD's approach to civilian downsizing in the early years relied primarily on voluntary attrition and retirements and varying freezes on hiring authority to achieve force reductions. DOD also used existing authority for early retirements to encourage voluntary separations at activities facing major reductions-in-force. The fiscal year 1993 National Defense Authorization Act authorized a number of transition assistance programs for civilian employees, including financial separation incentives—"buyouts", to induce the voluntary separation of civilian employees.⁷ DOD has credited the use of these separation incentives, early retirement authority, and various job placement opportunities for enabling the agency to avoid nearly 200,000 involuntary demotions and separations.

While the tools available to DOD to manage its civilian downsizing helped DOD to mitigate the adverse effects of force reductions, DOD's approach to civilian force reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing. Of course, the civilian workforce differs from the military workforce and need not have the same overall shape. However, during our work on the early phases of DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base.⁸

An Aging Workforce Has Been a Continuing Concern

An aging workforce and its future impact were matters of concern during the early years of DOD's downsizing and continues to be so today, mitigated in the interim by the use of early retirement authorities and separation incentives to help achieve workforce reductions. Today, the significance of the issue may be more clearly reflected in the growing gap between the percentages of older and younger employees in DOD's civilian workforce.

⁶ Military Personnel: Preliminary Results of DOD's 1992 Survey of Active Duty Members (GAO/NSIAD-93-119, Mar. 8, 2000).

⁷ Similar separation incentives had previously been authorized to help facilitate force reductions of military personnel.

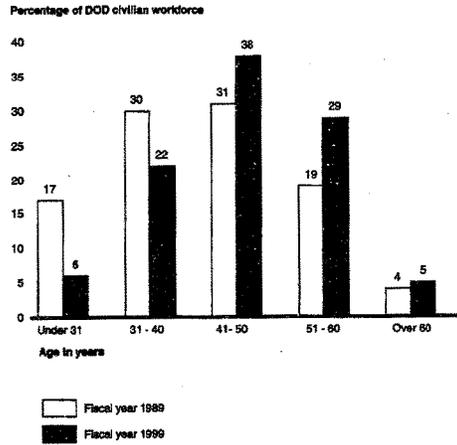
⁸ Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed (GAO/NSIAD-92-10, Mar. 18, 1992) and Defense Force Management: Challenges Facing DOD As It Continues to Downsize Its Civilian Work Force (GAO/NSIAD-93-123, Feb. 12, 1993).

In our work in the early 1990s, we noted various concerns among service officials about the aging of the civilian workforce and its long-term impact. Concerns existed that the workforce was aging and that, with continuing restrictions in place, the average age would continue to increase. DOD data show that the average age and years of service of a civilian DOD employee increased significantly from 1989 to 1999. The average civilian employee was 41.6 years old with 13.4 years of service in fiscal year 1989, figures that increased to 45.7 years of age with 17.6 years of service by fiscal year 1999.⁸ The use of early retirement authorities and separation incentives in recent years helped to slow this trend somewhat, but it nevertheless continues. To be sure, average age and years of service vary by location. In Army depots, for example, officials report that a majority of employees are 50 years of age or older, with most eligible to retire within a few years.

In contrast to the growth in the percentage of older employees in DOD's civilian workforce, the percentage of younger employees is falling, as shown in figure 2.

⁸ At the request of the House Government Reform Committee, Subcommittee on Civil Service, we are currently analyzing the retirement trends for mission critical employees in major federal agencies, including DOD.

Figure 2: DOD Civilian Workforce by Age (Fiscal Years 1989 and 1999)



Source: DOD

We previously reported that, from fiscal year 1987 through fiscal year 1992, the percentage of DOD's permanent full-time civilian work force under age 31 had dropped from 18 to 13 percent. More recent DOD-wide data indicate that as of September 1999, only 6.4 percent of DOD's civilian workforce were under age 31. We cannot say what the appropriate balance between younger and older employees should be, but the continuing shrinkage in the number of younger employees could make it difficult for DOD to infuse its workforce with new and creative ideas and develop the skilled civilian workers, managers, and leaders it will need to meet future mission requirements.

Impact of Downsizing on Mission Performance and Readiness

The issue of the impact of civilian downsizing on mission performance and readiness is one that we have encountered from time to time in our DOD reviews in recent years.

In 1996, based on a request from the Chairman of the Military Readiness Subcommittee, we examined civilian downsizing across DOD to assess whether it had affected readiness and functions at military installations, and whether the Office of the Secretary of Defense and the services had comprehensive strategies for managing civilian downsizing. Air Force, Marine Corps, and Navy officials said that civilian downsizing was not a cause for concern with regard to readiness, although some officials noted some limited adverse effects in some nonmission-critical areas.⁷ Army officials, however, painted a mixed picture of the impact of downsizing, indicating that it had to be carefully managed to minimize the effects on unit readiness. Army officials told us that civilian downsizing had not adversely affected military readiness and units' abilities to train at the installations we visited, despite some indications that soldiers had at times been assigned to civilian functions that were understaffed. These officials told us that they had prioritized staffing for functions that were critical to maintaining combat capabilities. Army officials indicated at that time that downsizing had had a more detrimental impact on functions such as public works and repair and maintenance of Army installations. We encountered similar views in a more recent review of the Army Materiel Command.⁸ Command officials, who expressed concern that greater adverse effects loom on the horizon, had difficulty quantifying the magnitude of likely effects.

Apart from these readiness issues, Air Force, Army, and Navy installation officials expressed concerns about the effects of civilian downsizing on the morale of the civilian workforce. Officials cited limited career and promotion opportunities, job insecurity, and longer working hours as examples of factors adversely affecting workforce morale.

With regard to comprehensive strategies for managing downsizing, our 1996 report noted that the services were employing common strategies for implementing and mitigating the effects of civilian personnel reductions. Among those strategies were an emphasis on consolidating and streamlining functions, use of improved business practices, and contracting out certain functions. However, we found that the services did not have a long-term road map to guide decisions about preparing the civilian workforce to meet future mission requirements.

⁷ *Civilian Downsizing: Unit Readiness Not Adversely Affected, but Future Reductions a Concern* (GAO/NSIAD-96-143BR, Apr. 22, 1996).

⁸ *Quadrant Defense Review: Status of Efforts to Implement Personnel Reductions in the Army Materiel Command* (GAO/NSIAD-99-123, Mar. 31, 1999).

Need for a Human Capital Self Assessment

Considering the enormous changes that the federal workforce has undergone and continues to undergo, and the external pressures and demands that virtually all federal departments and agencies are experiencing, taking a strategic view of human capital becomes ever more crucial to organizational results. If they expect to make the best use of their human capital, DOD and other government entities will need to build a solid foundation in strategic planning and organizational alignment, leadership and succession planning, recruiting and training the best possible talent, and establishing a performance culture—including appropriate performance measures and rewards—that steers employees toward the accomplishment of their organizational missions.

During the 1990s, Congress created a broad-based framework of reform for the way federal agencies are to be run. Financial management, information technology management, and results-oriented goal-setting and performance measurement were all addressed in fundamental legislative measures. But human capital reform has yet to gain the conceptual acceptance or political consensus needed for fundamental reform to occur. Yet even in the absence of legislative measures, federal departments and agencies—DOD included—can take practical steps to improve their approaches to managing their people. It is noteworthy that, for the first time, the President's fiscal year 2001 budget includes a Priority Management Objective to "align Federal human resources to support agency goals." At GAO, we have recently given increased attention to human capital needs across the federal government and begun developing approaches to help agencies improve their human capital management. One step we have taken is to develop a human capital self-assessment checklist that federal agency leaders can use to focus on valuing employees and on aligning their "people policies" to support organizational missions and goals.

Human Capital: A Self-Assessment Checklist for Agency Leaders is based on our examination of current laws and regulations and on our work with leading organizations in the private sector and among governments at the state and local levels as well as from abroad.¹¹ It also draws on values widely applied by the Malcolm Baldrige National Quality Award Program and the President's Quality Award Program, in addition to comments from officials from various federal agencies and from human capital experts both within and outside of government.

¹¹ Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

The checklist was designed to help agency leaders quickly scan their agencies' human capital policies and programs and determine whether they have addressed the areas necessary for the workforce to be managed for results—that is, in a way that supports the organization's shared vision for itself and its future. The Government Performance and Results Act (GPRA) envisioned that agencies would need to strategically manage all their resources—financial, information technology, and people—to achieve their organizational missions and goals. Our human capital checklist provides a means for agency leaders to put the spotlight on their management of human capital in light of these strategic concerns. The checklist is not a set of performance criteria or measures; instead, it is a framework or "line of inquiry" for federal agency leaders to follow in examining their agencies' human capital approaches and determining if they make sense in light of their organizations' missions, goals, and other needs and circumstances.

There is no single recipe for successful human capital management. However, the checklist is based on a number of human capital elements and underlying values that we have determined are common to high-performance organizations in the public and private sectors.²⁴ Federal agencies that are seeking to comply with the spirit of results-oriented management can use the self-assessment checklist to scan their human capital systems to see whether these elements have been addressed. The questions in the checklist follow a five-part framework—recognizing, of course, that all five parts are, of necessity, interrelated and overlapping:

Strategic planning: Establish the agency's mission, vision for the future, core values, goals, and strategies.

Organizational alignment: Integrate human capital strategies with the agency's core business practices.

Leadership: Foster a committed leadership team and provide reasonable continuity through succession planning.

Talent: Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment.

²⁴ GAO/GGD-00-179. Also, see *Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium* (GAO/GGD-06-36, Dec. 20, 1996) and *Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, Jan. 31, 2000).

Performance culture: Enable and motivate performance while ensuring accountability and fairness for all employees.

The self-assessment checklist is a simple diagnostic tool for agency leaders, rather than a methodologically rigorous evaluation. It is meant simply to capture senior leaders' informed views of their agencies' human capital policies and practices. We hope that using the self-assessment checklist will allow federal agencies to quickly determine if their approach to human capital supports their vision of who they are and what they want to accomplish, and to identify those aspects of their "people policies" that are in particular need of attention. In addition, even the most rudimentary review by agencies of their human capital systems should help them pinpoint the strengths and weaknesses of their human capital performance measures and data systems. Effective performance management requires fact-based decisionmaking, one of the first requirements of which is relevant and reliable data. Further, we at GAO are hoping that, by using the self-assessment checklist as a first step, agencies will begin a more comprehensive and ongoing evaluation of their human capital systems in the coming years.

One other benefit of self-assessment can be to help agencies develop a clearer understanding of the statutory or regulatory constraints that may exist on their ability to innovate, but equally important, the flexibilities that may be available to them. Over the past several years, some agencies have chafed under the constraints of title 5 and sought exceptions from civil service rules. A clearer understanding of the constraints imposed on and flexibilities available to the agencies may help them make choices they may not now be aware are possible. Further, if enough agencies do human capital self-assessments and identify systemic barriers to more effective human capital management, then the emerging portrait of the barriers that may exist across government could help build a consensus for specific civil service reforms.

**Strategic Planning:
Establish the Agency's
Mission, Vision for the
Future, Core Values, Goals,
and Strategies**

High-performance organizations begin by defining what they want to accomplish and what kind of organization they want to be. They define a shared vision—mission, vision for the future, core values, goals, and strategies—and communicate that shared vision clearly, constantly, and consistently. The agency's shared vision provides the standard for assessing the appropriateness and effectiveness of everything the agency does. In the area of human capital, for example, the agency should develop strategies to enhance the value of its employees and focus their efforts on the agency's shared vision. The effect should be in the best collective interests of employer and employees alike: the agency's capacity to

achieve its shared vision will increase, while its employees will benefit from the incentives—tangible and intangible—of working for a high-performance organization.

**Organizational Alignment:
Integrate Human Capital
Strategies With the Agency's
Core Business Practices**

High performance organizations choose the best strategies for integrating their organizational components, activities, core processes, and resources to support mission accomplishment. Likewise, high-performance agencies align their human capital systems—from the organizational level down to that of individual employees—with their strategic and program planning. This requires workforce planning that is explicitly linked to the agency's shared vision. A key question to ask is whether the agency has an explicit workforce planning strategy to identify its current and future human capital needs, including the size of its workforce. Aligning human capital systems with strategic and program planning also requires that what has traditionally been called the "personnel" or "human resources" (HR) function be an integral part of the top management team. Human capital professionals must have the knowledge and skills to provide effective mission support and to participate as partners with line managers and staff in developing and implementing human capital approaches. Further, line managers who may be given greater decisionmaking authority in the human capital area must be sufficiently prepared and trained to be accountable for their decisions.

**Leadership: Foster a
Committed Leadership
Team and Provide
Reasonable Continuity
Through Succession
Planning**

A committed senior leadership team is essential to fostering an agency's shared vision, aligning organizational components so that the agency can best pursue this vision, and building a commitment to the vision at all levels of the organization. To become a high-performance organization, an agency needs senior leaders who, through their consistent, committed, and persistent leadership, are drivers of continuous improvement, and whose styles and substance are in accord with the way the agency sees its mission and its own character. To create a workforce that shares this vision and is aware of the contribution that each employee can and must make toward achieving it, the agency's senior leaders must work as a team to convey a clear and consistent portrayal of this vision throughout the organization through their words and deeds and the example they set. Political appointees and career managers may bring differing values to the team, but both must work at building mutual understanding and trust and at committing themselves to a shared set of goals for their agency. These goals can take years to achieve, and so the agency must have a succession planning strategy that helps ensure a sustained commitment and continuity of leadership even as individual leaders arrive or depart. This strategy should include an effective approach to "growing leaders"—identifying employees with leadership promise and providing them with a variety of

professional development and learning opportunities designed to pass along the values and competencies that the agency has identified as important in its leaders.

Talent: Recruit, Hire, Develop, and Retain Employees With the Skills for Mission Accomplishment

A high-performance organization demands a dynamic, results-oriented workforce with the talents, multidisciplinary knowledge, and up-to-date skills to enhance the agency's value to its clients and ensure that it is equipped to achieve its mission. Because mission requirements, client demands, technologies, and other environmental influences change rapidly, a performance-based agency must continually monitor its talent needs. It must be alert to the changing characteristics of the labor market. It must identify the best strategies for filling its talent needs through recruiting and hiring, and follow-up with the appropriate investments to develop and retain the best possible workforce. Its compensation and benefits programs, workplace facilities, and work/family arrangements should be viewed from the perspective of how well they help the agency compete for and retain the best talent available, and then get the best mission performance from that talent. In addition, this talent must be continuously developed through education, training, and opportunities for continued growth. The agency must match the right people to the right jobs and, in the face of finite resources, be prepared to employ matrix management principles, maintaining the flexibility to redeploy its human capital and realigning structures and work processes to maximize economy, efficiency, and effectiveness. Structures and work arrangements must be fashioned to avoid "stovepiping" (or "siloeing") and draw upon the strengths of the various organizational components. Cross-functional teams, including "just-in-time teams" and "virtual teams" whose members may not work in the same physical location, can be used as a flexible means of focusing talent on specific tasks.

Performance Culture: Enable and Motivate Performance While Ensuring Accountability and Fairness for All Employees

High-performance organizations foster a work environment in which people are enabled and motivated to contribute to continuous learning and improvement and mission accomplishment, and which provides both accountability and fairness for all employees. A high-performance agency's approach to its workforce is inclusive and draws on the strengths of employees at all levels and of all backgrounds. It maintains a workplace in which honest two-way communications and fairness are a hallmark, perceptions of unfairness are minimized, and workplace disputes are resolved by fair and efficient means. High-performance organizations also have a holistic view of employees as key stakeholders, realizing that a variety of services, facilities, activities, and opportunities can be meaningful to employees and enhance their loyalty and commitment. A commitment to continuous learning and improvement can not only help an

agency respond to change, but also anticipate change, create new opportunities for itself, and pursue a shared vision that is ambitious and achievable. Incentives are particularly important in steering the workforce; they must be results-oriented, client-based, realistic, and subject to balanced measures that reveal the multiple dimensions of performance. Incentives should be part of a performance management system under which employees' performance expectations are aligned with the agency's mission, and in which personal accountability for performance is reinforced by both rewards and consequences. Because agencies are increasingly technology-driven and knowledge-based, high performing agencies ensure that their employees have the right information technology resources to do their work and to gather and share information.

Summary

Messrs. Chairmen, amidst the variety of emerging demands and rapid changes within and outside government, federal agencies need to take an integrated, strategic view of their human capital, understanding that all the facets of federal management reform ultimately share a common denominator: they rely on federal employees to make them a reality. At the DOD, as at all federal departments and agencies, managers will need to define their organizational missions, goals, and other needs and circumstances, and work to ensure that their "people policies" are designed, implemented, and assessed by the standard of how well they support these intents. Self-assessment can be a useful first step toward improving the alignment of human capital management with strategic planning and core business practices. In this regard, DOD and other federal entities may find our self-assessment checklist a useful tool. Our hope is that self-assessment will be just the beginning of agencies' ongoing efforts to better manage their people for results.

Messrs. Chairmen, this concludes my prepared statement. We would be pleased to answer any questions you or other Members of the Subcommittees may have.

Contacts and acknowledgement

For further contacts regarding this testimony, please contact Michael Brostek at (202) 512-8676 or Barry Holman at 512-8412. Individuals making key contributions to this testimony included Stephen Altman, Jennifer S. Cruise, David S. Epstein, Thomas C. Fox, Anthony P. Lofaro, and James R. Reifsnnyder.

Statement of Dr. Diane M. Disney

**Deputy Assistant Secretary
Civilian Personnel Policy
Department of Defense**

**Before the
Military Readiness Subcommittee, House Armed Services Committee
Civil Service Subcommittee, House Government Reform Committee**

**Overview of Civilian Personnel Issues
March 9, 2000**

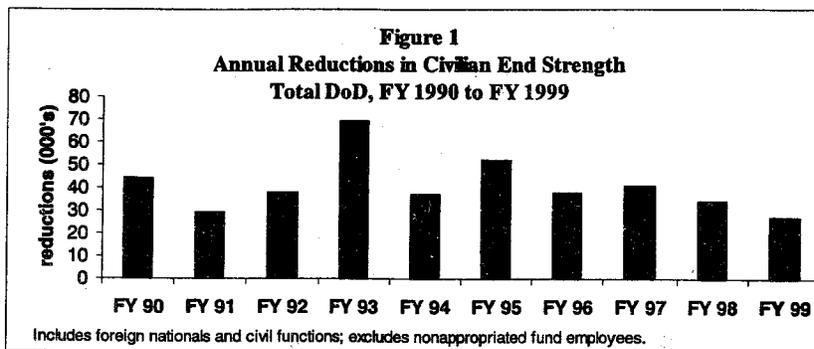
Mr. Chairmen and members of the subcommittees. I am pleased to be here today to provide testimony about matters affecting the civilian workforce within the Department of Defense (DoD).

I will begin by providing an overview of the civilian drawdown over the past decade, along with projections for the next several years. As the changes present particular challenges, I will then discuss current approaches to workforce management and describe some legislative assistance needed for effective workforce shaping. The final section of my testimony will summarize several key issues in other areas, including items in which the Committee has expressed particular interest.

OVERVIEW OF CIVILIAN DRAWDOWN TO DATE

Demographic Changes

Over ten consecutive years of downsizing have brought significant changes in the DoD civilian workforce in terms of age, occupational profile, grade, and educational level. As Fiscal Year 1989 ended, DoD employed about 1.15 million civilians (including those in both military and civilian functions but excluding workers paid from nonappropriated funds), of whom 10 percent were local nationals. By the end of FY 1999, the number had declined to some 732,000, a drop of over 36 percent, with the number of local nationals falling by 56 percent. As Figure 1 shows, annual declines have ranged from a low of 27,000 in Fiscal Year 1999 to a high of 69,000 in Fiscal Year 1993, at the height of the Base Realignment and Closure (BRAC) process.



Because overall numbers can mask a considerable range of differences, a full understanding requires examining changes in several demographic characteristics. Data in the following comparisons reflect the U.S. civil service workforce in both civil and military functions but exclude foreign nationals, employees of the defense intelligence agencies, and workers paid by nonappropriated funds.

Not all subdivisions reflect major differences. For example, there has been little difference in the drawdown by gender. The number of men in the workforce has declined by 35 percent, while the number of women has declined by almost 34 percent. (See Attachment 1.) Similarly, Whites (-35.7%) and Blacks (-36.2%) have seen their numbers fall by essentially the same percentage. Declines among other groups have been smaller, in absolute and relative terms (Hispanics, -29.8%; American Indians, -25.9%; and Asian and Pacific Islanders, -19.1%). (See Attachment 2.)

In other areas, major changes include the following:

- **An increase in the average age.** This has already risen from 41.6 to 45.8, and will soon exceed 46. Further, the number of employees younger than 31 has dropped by 76 percent, while the number in their 30s has fallen 51 percent. Fully a third of current workers are aged 51 or older, as accessions have fallen from some 65,000 a year to about 20,000. Taken together, these factors present potential problems in the transfer of institutional knowledge. (See Attachment 3.)
- **Increasing professionalization.** While there has been a decline in all major areas, the sharpest drops have been in clerical (-66%) and blue-collar (-47%) occupations. As the decade began, blue-collar workers accounted for just over 29 percent of the U.S. citizen workforce; the share has fallen to just under 24 percent, primarily because of the base closure

process. At the same time, the share of the total workforce in professional, technical, and administrative jobs has risen. The smallest absolute decline has come in professional jobs, which have fallen by 6.1 percent overall but whose relative share has risen from 15 percent to 21 percent of the workforce. (See Attachment 4.)

- **Improvement in educational levels.** Data in this area are incomplete. However, we do know that only about 10,000 current employees entered DoD with less than a high school diploma; this figure is some 76 percent smaller than it was a decade earlier. Over other educational categories, as the educational level rises, the percentage of decline falls. Of those known to have entered DoD employment with at least one advanced degree, the decline has amounted to only 2.7 percent across the decade. The jobs that remain in DoD, therefore, seem to be those requiring more advanced education and training than those in the past. (See Attachment 5.)
- **Increase in typical grade level.** In both white-collar and blue-collar positions, the losses have been greater at the lower grade levels, primarily because such positions lend themselves more readily to technological substitution and outsourcing. For example, positions at the GS-8 level and below have fallen from 32 percent to 25 percent of the U.S. civilian workforce, while there has been growth in the relative share of higher-level positions, particularly at the journey levels (GS 11-13). (See Attachment 6.)

During this decade, then, the Department has seen a profound shift in the expectations it has of its workforce. Outsourcing, base closure, and technological advances have combined to reduce the number of positions requiring limited education and training. Simultaneously, advanced technology, contract oversight, and a more complex mission have generated the need for more advanced education and capacity. Reduced hiring and the aging of the Baby Boom generation have combined to increase average age and grade level. Taken together, these factors have produced a workforce that is very different from its predecessor of a decade earlier.

Methods of Accomplishing Drawdown

DoD has accomplished its civilian drawdown through base closure and realignment, privatization and outsourcing, re-engineering and streamlining, attrition and reductions in force. Perhaps the most visible has been the first of these, as DoD has implemented the BRAC recommendations of 1988, 1991, 1993, and 1995. Each BRAC recommended numerous installations for change, and each has required about six to seven years for full implementation. To date, the closure and realignment of BRAC bases have accounted for about 44 percent of the drawdown. This percentage is not higher because a closure in one community may mean loss of Defense jobs there but may not mean that all individuals leave the Department. About half find jobs at other DoD locations.

BRAC was strongest in 1996, when it accounted for over 90 percent of that year's total employment reductions. During that year, positions were eliminated from actions started by all

the BRAC commissions' recommendations. Now, only about 6,000 civilian positions remain at BRAC sites, and these will be eliminated by the end of FY 2001.

Use of the A-76 process has not been consistent over time. According to the Commercial Activities Management Information System (CAMIS) database, DoD completed 1,968 A-76 cost comparison studies from 1980 through 1989, for an average of 197 a year. However, in the first seven years of the 1990s, the average was only 19 a year. This difference stemmed at least in part from legislation that vested authority in installation commanders while excluding service, agency, and major command headquarters from key processes. This legislation was not extended in Fiscal Year 1996. Since then, the Defense Reform Initiative has put major emphasis on distinguishing inherently governmental activities from those that are open to competition. Competitive sourcing and A-76 studies are now receiving significant levels of attention.

To determine the results of A-76, we commissioned a study by the RAND Corporation, which published its findings in 1997 as *Outsourcing of DoD Commercial Activities: Impacts on Civil Service Employees*. Analyzing studies completed between 1978 and 1996, RAND found that "57 percent of all initiated studies are eventually completed." Of those, about half result in outsourcing. Historically, then, about 27 percent of the A-76 studies initiated have resulted in outsourcing. "Among outsourced activities, 80 percent have some type of personnel displacement. More specifically, 30 percent resulted in separation of permanent employees, 41 percent resulted in retirements, 34 percent resulted in transfers to lower-grade positions, and 73 percent resulted in lateral transfers."¹ Therefore, we expect that the increasing reliance on use of the A-76 process will cause some dislocation. But this may be less concentrated than under BRAC.

Because of some DoD programs and your legislative assistance, we have been able to minimize the trauma associated with downsizing, regardless of the cause. Indeed, we have been able to hold involuntary separations to less than 9 percent of the total separations. Foremost among our internal efforts has been our use of the **Priority Placement Program**. The Federal Government's premiere job placement program, this has been helping DoD employees find new positions within the Department for some 35 years. Since its founding, PPP has found new positions for over 161,000 DoD employees facing job loss through no fault of their own.

We register individuals sometimes as long as two years before a mandatory separation and keep them registered for a year after separation, if that is necessary. Indeed, PPP registration is generally the first thing that employees seek when they learn of a planned reduction. They know it works. Further, the program is concrete evidence of the Department's concern for its people and its investment in human capital. Currently, some 7,000 employees are registered, and we are finding new slots at the rate of 330 a month. During the height of BRAC, placements reached 1,000 a month.

Tied closely to PPP are two statutory options: the Voluntary Early Retirement Authority (VERA) and the Voluntary Separation Incentive Payment (VSIP) better known as the buyout. We are particularly grateful for your support in amending the former and extending the latter in

¹ Albert A. Robbert, Susan M. Gates, and Marc N. Elliott. *Outsourcing of DoD Commercial Activities: Impacts on Civil Service Employees* (Santa Monica, CA: National Defense Research Institute, RAND, 1997), p. xix.

recent years. Since its introduction in Fiscal Year 1993, the VSIP has induced just over 140,000 employees to leave the Department voluntarily, thereby avoiding layoffs and the associated costs in morale, productivity, and money. Some 60,000 people have taken early retirement, many of these with a buyout. That combination of incentives has proved particularly valuable in easing the workforce transition.

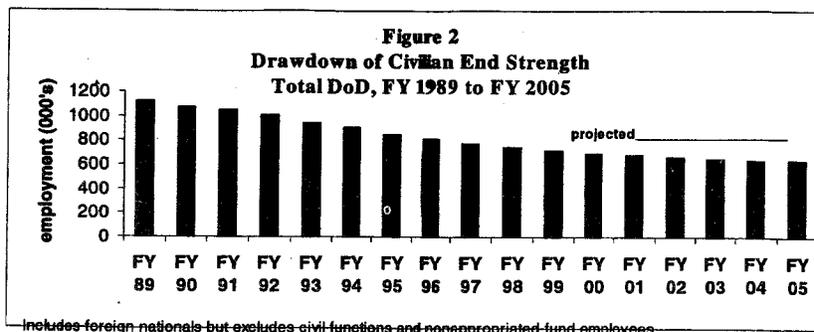
One closely related program has been the Voluntary Reduction in Force (VRIF). This permits an employee who is not affected by a planned reduction in force to volunteer to leave; thereby saving a more junior employee who wants to remain. Use of VRIF precludes paying separation incentives and does not create a payback obligation if the employee returns to Federal employment. Somebody who volunteers for RIF is entitled to severance pay and can take advantage of the temporary continuation of health insurance. Because this program has been so helpful, and because it is scheduled to end in September 2001, the Department will be seeking an extension through 2003.

Congress has also been helpful in easing the transition by permitting us to pay severance amounts in a lump-sum rather than on a bi-weekly schedule. Another help has been allowing us to continue to pay the Federal share of health insurance premiums for 18 months after an employee's involuntary separation or voluntary separation from a surplus position due to a RIF. Both of these options permit employees the financial support necessary to adjust to a new life after work at DoD.

Relative Success of Drawdown.

Eliminating some 420,000 civilian positions is neither simple nor easy. However, because of its comprehensive transition program and the mission dedication of its workforce, DoD has been able to reach that milestone with less trauma than might otherwise have been the case. As mentioned earlier, fewer than 9 percent of the reductions have been caused by involuntary separations or reductions in force. Only in 1996 did involuntary separations exceed a tenth of overall separations. Of the separations during the drawdown, just over two-fifths have been due to some form of retirement, primarily to optional retirement, meaning that individuals had reached the combination of age and experience that allowed them to receive an immediate and unreduced annuity. Another quarter resigned, while 6 percent transferred to another Federal Agency. The remainder left for a range of unspecified reasons.

Beyond the creative use of workforce transition tools, the Department owes credit for workforce stability during the drawdown to the emergence of labor-management partnerships. Recent data indicate that 62 different unions have exclusive representation with various DoD organizations covering 426,196 appropriated fund employees in 1,321 bargaining units. Most of these bargaining units have created some type of partnership, which, in turn, works to improve labor-management relations, increase productivity, and reduce costs. This combination has led, overall, to a reduced incidence of grievances and greater attention to employee involvement.



To gain insight into morale and expectations, the National Partnership for Reinventing Government (NPRG) recently completed its second survey of Federal employees. The results of this 1999 effort support the view that effective management of the multiple initiatives affecting the Department's workforce has helped mitigate the adverse impact on employee morale that could be expected with a decade of downsizing. NPRG surveyed five organizations within DoD: The Military Departments, the Defense Logistics Agency, and "All Other DoD." In each of these, from 59 to 63 percent of the responding employees indicated that they were satisfied or very satisfied with their jobs. This compares to an overall government rate of 60 percent, and a private industry rate of 62 percent. While we wish that our employees' job satisfaction rate was higher, we are gratified at the response given the extraordinary circumstances of the past 10 years and will continue to work toward improvement.

One area that has had a less than positive effect has been the declining rate of promotions. Since the start of Fiscal Year 1994, about 10 to 11 percent of white-collar permanent workers have been promoted each year. This rate is about half of what it was in the 1980s. Similarly, during the same period, blue-collar promotion rates have been between 4 and 5 percent a year. These are considerably below the 7.3 percent rate in FY 1984 and the 7.9 percent rate of FY 1989. This reduction has cut across race and gender lines, reflecting a decline in the number of available positions and the shrinking of lower-graded jobs, where promotion rates are typically faster than at the higher levels.

In addition, the reduction is beginning to bring to light certain areas of skills imbalance. These include places where multiple employees know Russian, for example, but few know Arabic; or laboratories where recently minted Ph.D.s are rare; or personnel offices where specialty areas are one-person deep. These areas need examination in light of the workforce projections to be discussed below.

PROJECTIONS FOR THE CIVILIAN WORKFORCE

Demographic Changes and Their Implications

According to the President's Budget, DoD's civilian workforce engaged in military functions will fall another 11 percent (from its FY 1999 level) by the end of FY 2005. If the Department fails to meet its planned employment targets (that is, it under-executes its numbers), that percentage could be higher. Figure 2 shows Departmental employment levels across the drawdown years.

Our micro-simulation model permits us to consider likely results of this planned downsizing:²

- **Higher Average Age.** The median age has already risen from 42 to 46 over the past decade. Under the baseline best-case scenario, it will stay the same through FY 2007. Under the baseline and worst-case scenarios, it will rise to 47.
- **Decline in Young Workers.** At the end of FY 1989, workers under age 31 accounted for 17.3 percent of DoD's workforce; by the end of CY 1999, the share had fallen to 6.2 percent. This drop is attributable to the decline in accessions and the aging of the existing workforce, particularly those in the Baby Boom years. By the end of FY 2007, the percentage of young employees is projected to be between 7.8 and 10.3, depending upon the assumptions made.
- **Higher Average Grades.** The average grade for white-collar employees has risen from 8.5 to 9.3 during the drawdown, while the blue-collar average has gone from 8.2 to 8.7. White-collar averages are expected to rise again between now and the end of FY 2007, regardless of economic assumption. The drivers continue to be the dominance of Baby Boom-generation employees, the low accession rate, and the increased emphasis on outsourcing, which has a stronger impact on lower-level positions than highly graded ones.
- **Increased Diversity.** During the drawdown, women's share of DoD positions rose slightly (from 37.2% to 37.7%), as did that for members of minority groups (from 25.4% to 26.7%). Similarly modest increases are projected for the next seven years. Also, because of the characteristics of the workers taking buyouts or otherwise retiring, the relative share of higher-graded positions held by women and minorities is likely to continue to increase in the next few years.
- **Higher Average Costs.** Although employment is down by more than a third, constant-dollar costs for civilian personnel have fallen by only about 13 percent. This difference has been caused by the increasing average age and grade level, annual pay adjustments, benefit changes, and changes in the workforce mix (primarily the increasing professionalism). As a

² As earlier, these demographic figures cover both civil and military functions but not foreign nationals, employees of the defense intelligence agencies, and workers paid by nonappropriated funds.

consequence, the average workyear costs have risen by 28 percent in constant dollars. This trend is very unlikely to change without a significant swing toward hiring younger workers at lower grades than is now the case.

Additional Pressures on the Civilian Workforce

Over the past decade, civil servants have been subjected to considerable stress because of the public debate over their numbers, dedication, and work ethic. They have also seen numerous officials attempt to limit their pay and benefits, with full support of media pundits. Despite these attacks, Defense civilians have continued to dedicate themselves fully to meeting the Department's mission.

Other outside pressures, though, are starting to take their toll. Foremost among these is the robust state of the American economy. The widespread belief that jobs are plentiful works against the traditional appeal of the stability of the civil service. Likewise, competition for talent has bid starting salaries for some occupations to levels that the civil service cannot match. Some corporate law firms are starting associates at \$125,000 a year, for example, and recent graduates in computer science can command formidably large signing bonuses. Our laboratories are also reporting noticeable difficulty in attracting top-flight graduates in engineering, mathematics, and science.

Another difficulty is the rigidity of civil service regulations. Where a private-sector high-technology firm can make a promising graduate an offer and even a counter-offer on the same day, our DoD recruiters may face waits of months to complete federal-wide processes. We continue to work with the Office of Personnel Management and other Federal agencies to seek ways to simplify this process and allow us to become more competitive as we face the need for a smooth transition of institutional knowledge from the Baby Boomers to the next generation of employees.

CURRENT APPROACHES TO WORKFORCE MANAGEMENT ISSUES

Identification of Skills Needed in the Future

The DoD civilian workforce of 2000 is very different from that of 1989 in terms of age, technological sophistication, educational level, and expectations of a full career within the Department. There is every reason to believe that the workforce of 2010 will also be different from that of today. Therefore, the Department needs to develop and employ more tools for making projections so that it can initiate appropriate changes.

In one such effort, my office joined the Joint Staff to sponsor the "Future Warrior/Future Worker" study by the RAND Corporation to rate occupations for the future on 232 dimensions across five domains (abilities, skills, bodies of knowledge, work context, and generalized work activities). RAND employed skilled occupational analysis from North Carolina State University, the Institute for Job and Occupational Analysis, and the U.S. Air Force Occupational

Measurement Squadron. While the final report will not be published until later this spring, several broad themes have emerged, indicating that the future workforce will need better problem-solving skills, more advanced technical skills, the ability to stay current, and an enhanced service orientation. Among the occupations likely to change the most are those for aircraft, automotive, and electrical maintenance specialists; computer systems specialists; environmental health and safety specialists; and intelligence specialists. Although most occupations are not expected to change appreciably over the coming decade, several categories of jobs are expected to require increased depth or breadth of knowledge.

From another perspective, my office has been working with the Office of the Undersecretary of Defense for Acquisition, Technology, and Logistics on assessing the workforce of the future. This effort has led to the identification of competencies critical for the future. This work will form the basis of an evaluation of acquisition training and education to switch the curriculum toward focusing on preparing people to meet future needs.

Investment in Education and Training

The primary value of workforce projections is that they enable managers to allocate resources toward meeting future needs. In the 1990s, DoD managers were pleased that implementation of the Goldwater-Nichols Act had been yielding an officer corps that was more highly educated with a stronger joint perspective than ever in the past. However, there had not been a similar investment on the civilian side. To the contrary, civilians tended to remain occupationally stove-piped despite the fact that their jobs were becoming broader and their responsibilities more complex. They had very few opportunities for developmental assignments and little exposure to national security decision-making. Clearly, a change was needed.

That change came when, in response to recommendations from the Commission on Roles and Missions of the Armed Forces, DoD created its Defense Leadership and Management Program (DLAMP). Since its Directive was signed in 1997, DLAMP has been DoD's first systematic, Department-wide program to prepare civilians for key leadership positions at the GS-14, GS-15, and Senior Executive Service levels. Aimed at DoD employees currently at the GS-13, 14, and 15 levels, DLAMP requires a one-year rotational assignment outside one's occupation or Component; at least a three-month course in professional military education at the senior level; and at least 10 advanced-level graduate courses in subjects important for Defense leaders (in a format similar to a Defense-focused MBA). These activities are completed over six to ten years. Competitively chosen for admission, each participant also has a personal mentor to provide guidance throughout the multi-year effort.

With the orientation of its fourth class (258 participants) on February 22, DLAMP now has some 1,100 participants. Currently, 83 are enrolled in the 10-month PME courses at Senior Service Schools for the 1999-2000 academic year; 98 have already completed one of these 10-month courses with their military counterparts. Team-taught graduate courses began on February 23, 1998. As of two years later, the program has conducted 82 graduate courses, with 1,227 students in attendance. Approximately 65 additional graduate courses will be conducted

through the remainder of Fiscal Year 2000. In addition, this program is serving as a model for similar efforts in several other countries.

The success of DLAMP has heightened awareness of the need for similar investments in the civilian workforce both in terms of leadership skills and in terms of occupational knowledge. Because our research has indicated that higher-level DoD positions are filled overwhelmingly by people who have spent some time within the Department, it is essential that DoD invest in its civilian cadre. To that end, the Defense Science Board's Task Force on Human Resources Strategy recently issued a strong endorsement of DLAMP's expansion and a recommendation for a DLAMP preparatory program for employees at the GS 9-12 levels. This was accompanied by a recommendation to expand efforts to recruit and develop interns on both the specific occupational tracks and on the higher levels as Presidential Management Interns. To add strength to this area, the Task Force said that DoD should continue with its planned efforts to seek legislative flexibility to permit payment for degrees and certificates in relevant fields of study.

As you are aware, the Defense Acquisition University is being reorganized to provide better-targeted education and training for its students. In another area, the Intelligence Community has created a special Assignment Program to ensure that future intelligence officers have a well-rounded preparation as well as a deep grounding in specific areas. This program encompasses two-year developmental assignments across agencies, as well as specific coursework; completion will be required for Intelligence Community Officer designation in the future.

These examples serve to indicate the Department's commitment to developing new ways to improve the skills and education of its civilian employees to enable them to meet increasing challenges. It also underscores our recognition of the importance of providing a strong, informed, capable infrastructure to support the military.

Strengthening of Labor-Management Relations

As mentioned above, strengthening labor-management relations has been essential to the Department's re-engineering and rightsizing. To determine obstacles and techniques for removing them, the Defense Partnership Council recently surveyed managers and union leaders at 20 percent of the sites where there could be a labor-management partnership. More specifically, the group looked at 20 percent of the sites in three categories: those that have a partnership (by whatever name), those who had had one but no longer did, and those that had never had one. What emerged was a clear consensus that partnerships were most likely to be created and sustained when several behaviors or conditions exist: commitment at all levels; open communication on a wide range of subjects; and interpersonal and partnering skills.

The survey identified several improvements in organizational effectiveness that could result from partnering:

- Cost savings and cost avoidance;
- Improved communication;

- Workplace improvements;
- Improved customer service; improved employee morale; and
- Increased productivity.³

Recommendations included endorsing and expanding the partnership concept across the Department; publicizing and sharing the successes of partnership; and expanding partnership-related training. Action has begun in all of these areas.

Use of Current Workforce Transition and Shaping Tools

Making effective human resource policy depends on knowing about the relevant data rather than relying on anecdotes or hunches. Therefore, we regularly produce data books with information on where we were (by Component) when the civilian drawdown began and where we are. We look at where we will be along many variables if policies do not change. Then, if we do not like that answer, we try to develop ways of making changes.

This process involves the Military Departments and Defense Agencies, as well as representatives from a range of functional communities, such as Acquisition and Finance. This analysis and discussion have led us to develop a legislative package that is second to none in government in terms of its assistance in workforce transition. It also enables us to pool our information about specific occupations needing assistance or regulations needing amendment.

Critical differences between the military and civilian sectors, however, mean that the planning will never be the same. For example, the military effectively has age restrictions, has an up-or-out system, and has a mix of floors and ceilings in different areas. The civilian sector, though, has no mandatory retirement age and is more of an "up-and-stay" model. Also, it is subject to government-wide personnel regulations, while the military has its own unique system. Nevertheless, we employ a mixture of Department-wide model-building, Component-specific analysis, and contractor research to develop the data necessary to make decisions.

We also make extensive and creative use of the workforce shaping tools described above. We greatly appreciate your assistance in securing those requiring legislation and ask for your continuing assistance as the drawdown enters the serious rightsizing phase.

LEGISLATIVE ASSISTANCE NEEDED FOR EFFECTIVE RE-SHAPING

Extension of VRIF and Creation of New Options

This testimony has already mentioned the Department's legislative request **to extend the authority for civilian employees to participate voluntarily in reductions in force**. Because the current authority expires on September 30, 2001, this proposal seeks an extension through September 30, 2005.

³ Defense Partnership Council, *Report on the Examination of Partnership and Labor Relations in the Department of Defense* (Washington, DC: Department of Defense, December 1999), p. 3.

In addition, we are continuing to **develop tools for voluntary, targeted force shaping**. Doing so would provide the flexibility to meet critical mission needs or correct skill imbalances within organizational units. For example, some units have downsized and re-engineered to the point where they could have the right number of employees but lack the right mix of skills. The reengineering plans in such a situation would be tied to actions that would not necessarily warrant a reduction of authorizations; rather, a realignment would be the appropriate move, such as changing a supervisory position to a nonsupervisory one in a necessary area. We understand that the retirement fund payment would still be necessary but we believe that correcting the skills mismatch could so enhance productivity – particularly if the position were re-engineered to a lower grade – that any other costs would be offset. We are looking to modifications of VERA and VSIP as tools for force shaping in this regard.

Modification of Civil Service Laws and Regulations

Another Departmental request mentioned above is to **restructure the restriction on degree training**. This proposal would allow DoD to pay for the costs of an academic degree where such training is part of a systematic program of professional development. It would also permit better planning and use of limited educational dollars.

To permit us to be more competitive for scarce talent in the labor market, as well as to cope effectively with the elimination of nearly two-fifths of our personnel jobs, the Department is also working on a proposal for an **alternative hiring system**.

OVERVIEW OF OTHER KEY ISSUES

Regionalization of Personnel Service and Modernization of the Defense Civilian Personnel Data System (DCPDS)

As the 1990s began, DoD realized that it needed to improve the way it managed civilian personnel services. To that end, we identified all the tasks performed in a typical personnel office, separating them into those requiring face-to-face interaction and those that did not. We decided that those functions requiring face-to-face interaction should remain at the installation level. Those not requiring interpersonal contact could be automated, with service delivery pulled into regional centers to achieve some economies of scale. This approach was validated by an outside review in 1994, and DoD then began the process of regionalization and modernization.

Because of the anticipated savings, the decision was made to move both efforts along simultaneously, a decision that did cause some bumps along the road. Nonetheless, we now have 22 regional centers in some stage of operation around the world, serving the vast majority of DoD employees. Before establishing the centers, we re-engineered basic personnel processes and then deployed computer hardware and software both to operate in new ways and to familiarize personnelists with using computers. This move to use technology to capture

economies of scale has enabled the Department to increase the number of people served per personnelist from 59 to 81.

Working collaboratively with Components, Civilian Personnel Policy and the Civilian Personnel Management Service have eliminated 10 non-interoperable human resource data systems and moved everyone to a single migration system. We have encoded some 550,000 business rules into a new data management system that has successfully been deployed to Army, Navy, and Air Force sites. Work is proceeding for Milestone III approval later this month, after which full deployment begins. Built on COTS products, this will be the most comprehensive human resource data system in the world. It will also be DoD's first real-time, interactive database on civilian personnel.

Development of this modern system has been a thoroughly collaborative venture within the Department, one that represents significant success in incorporating COTS products. We greatly appreciate the support of Congress throughout our developmental effort and look forward to demonstrating a fully deployed and functioning system this time next year. When the system is fully deployed, the combination of regionalization and modernization will save the Department approximately \$223 million a year.

As a corollary to this effort, we have been re-vamping the Civilian Personnel Manual to ensure consistency across the Department and eliminate unnecessary regulations. To date, we have revised, fully coordinated, and issued on the worldwide web 29 subchapters (of the total of 61). Another 21 are currently in some phase of coordination, with the remaining 11 under active development. When completed, this process will have eliminated some 70 percent of the Department's regulations while streamlining and clarifying guidelines to the field. This effort is enhanced by the operation of our Field Advisory Services, which provides consistent guidance and policy interpretation to the field worldwide in areas of benefits, pay, classification, and labor relations. It answers about 1,000 calls a month, responding to more than 95 percent within a single workday.

Implementation of the Nonappropriated Fund (NAF) Uniform Health Plan

After a five-year joint effort between my office and the Services, DoD implemented a comprehensive uniform health benefits program (HBP) effective January 1, 2000, for eligible NAF employees and retirees. It replaces the six different programs previously offered by the various NAF employers. The HBP results from a congressional requirement in the Fiscal Year 1995 Defense Authorization Act that DoD take the necessary steps to establish a uniform program.

Under the HBP, benefits are improved for many enrollees, and most are experiencing reduced premiums. Currently more people are covered under the HBP than in the previous six plans combined; with enrollment totaling about 40,000 employees and retirees. Aetna U.S. Healthcare provides managed care networks and claims administration for the HBP. We will continue to work with the Services and Aetna to adjust the HBP as necessary as we gain program experience.

Local National Pay Restrictions in Overseas Locations

In our overseas locations, basing agreements with host countries require that we employ significant numbers of local nationals in our civilian workforce. Currently, our appropriated fund activities abroad employ more than 50,000 local nationals. They are a vital part of our civilian workforce, providing continuity and a host-nation perspective.

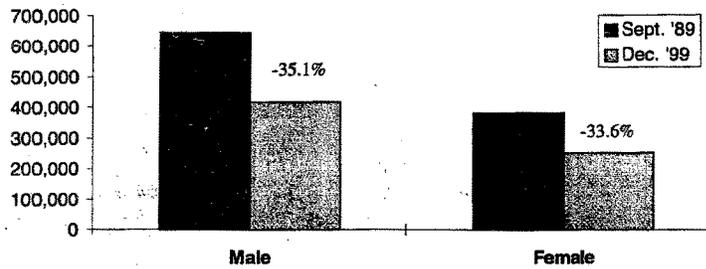
The Foreign Service Act of 1980 requires that we pay local nationals based on the prevailing pay rates for similar jobs in the local area. However, since FY 1990 the annual Defense Appropriations Act has limited the local national pay increases to the higher of the U.S. General Schedule or the host country public sector increases. (Turkey has been exempted each year.) While this so-called "pay cap" has provided an arbitrary mechanism to limit budget expenditures, we now lag behind the prevailing rate in a number of countries. This reality has resulted in strained relations with our employees, their unions, and those several host nations affected by the gap, which ranges as high as 16 percent. We will continue to work with the Military Services and Defense Agencies overseas to find alternative solutions to this problem, but we may need to request legislative assistance in the future.

CONCLUSION

This testimony has been designed to provide an overview of DoD's civilian workforce – its drawdown, present, and future – and to summarize progress in relevant areas.

This concludes my remarks. Thank you again for this opportunity to present our experiences in managing the issues related to our valuable civilian workforce. I will be pleased to answer any questions you may have.

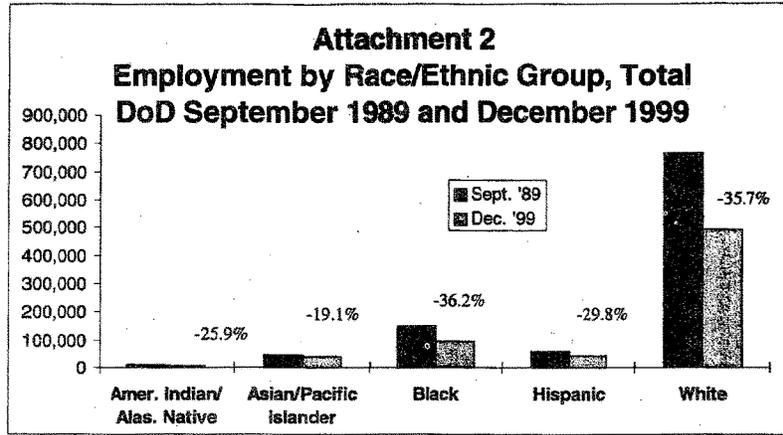
**Attachment 1
Employment by Sex, Total DoD
September 1989 and December 1999**



**DISTRIBUTION OF CIVILIAN EMPLOYEES* BY SEX
Difference**

<u>Category</u>	<u>Sept. '89</u>	<u>Dec. '99</u>	<u>Category</u>	<u>Number</u>	<u>Percent</u>
Male	644,776	418,313	Male	-226,463	-35.1%
Female	381,585	253,221	Female	-128,364	-33.6%
Unknown	469	20	Unknown	-449	-95.7%
Total	1,026,830	671,554	Total	-355,276	-34.6%

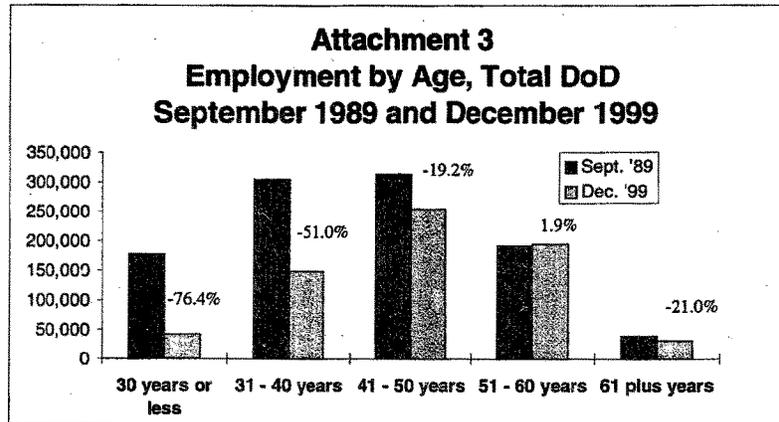
*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies



DISTRIBUTION OF CIVILIAN EMPLOYEES* BY RACE/ETHNIC GROUP

Category	Sept. '89	Dec. '99	Category	Difference	
				Number	Percent
Amer. Indian/ Alas. Native	8,838	6,545	Amer. Indian/ AN	-2,293	-25.9%
Asian/Pacific Islander	45,970	37,202	Asian/Pac. Isl.	-8,768	-19.1%
Black	149,554	95,355	Black	-54,199	-36.2%
Hispanic	57,198	40,145	Hispanic	-17,053	-29.8%
White	765,270	492,307	White	-272,963	-35.7%
Total	1,026,830	671,554	Total	-355,276	-34.6%

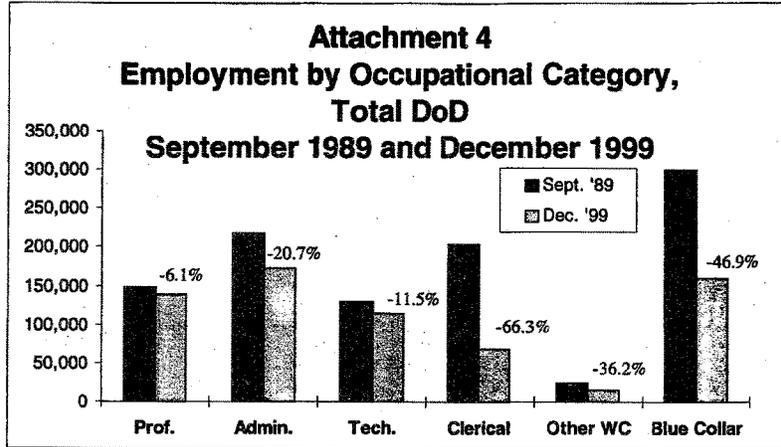
*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agen



DISTRIBUTION OF CIVILIAN EMPLOYEES* BY AGE

Category	Sept. '89	Dec. '99	Category	Difference	
				Number	Percent
30 years or less	177,012	41,852	30 years or less	-135,160	-76.4%
31 - 40 years	304,230	148,926	31 - 40 years	-155,304	-51.0%
41 - 50 years	313,994	253,833	41 - 50 years	-60,161	-19.2%
51 - 60 years	191,907	195,571	51 - 60 years	3,664	1.9%
61 plus years	39,550	31,259	61 plus years	-8,291	-21.0%
unknown	137	113	unknown	-24	-17.5%
Total	1,026,830	671,554	Total	-355,276	-34.6%

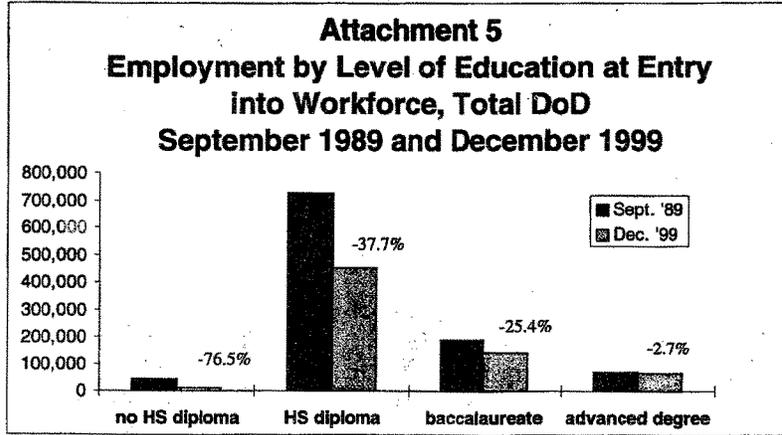
*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.



DISTRIBUTION OF CIVILIAN EMPLOYEES* BY PATCO CATEGORY
Difference

Category	Sept. '89	Dec. '99	Category	Number	Percent
Professional	148,436	139,451	Professional	-8,985	-6.1%
Administrative	218,437	173,185	Administrative	-45,252	-20.7%
Technical	130,100	115,088	Technical	-15,012	-11.5%
Clerical	203,738	68,702	Clerical	-135,036	-66.3%
Other White Collar	24,510	15,641	Other White Collar	-8,869	-36.2%
Wh Col Subtotal	725,221	512,067	Wh Col Subtotal	-213,154	-29.4%
Blue Collar	300,357	159,364	Blue Collar	-140,993	-46.9%
Unknown	1,252	123	Unknown	-1,129	-90.2%
Total	1,026,830	671,554	Total	-355,276	-34.6%

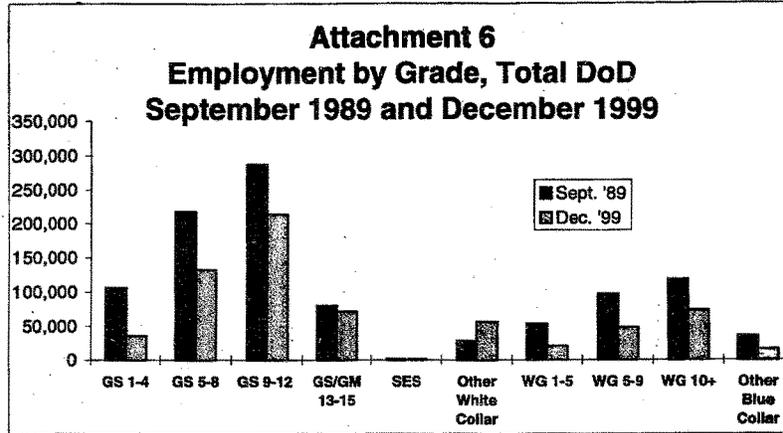
*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.



DISTRIBUTION OF CIVILIAN EMPLOYEES*
BY LEVEL OF EDUCATION AT ENTRY

Category	Sept. '89	Dec. '99	Category	Difference	
				Number	Percent
no HS diploma	41,718	9,814	no HS diploma	-31,904	-76.5%
HS diploma	726,696	452,651	HS diploma	-274,045	-37.7%
baccalaureate	189,364	141,340	baccalaureate	-48,024	-25.4%
advanced degree	69,002	67,156	advanced degree	-1,846	-2.7%
unknown	50	593	unknown	543	1086.0%
Total	1,026,830	671,554	Total	-355,276	-34.6%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.



DISTRIBUTION OF CIVILIAN EMPLOYEES* BY GRADE

Category	Sept. '89	Dec. '99	Category	Difference	
				Number	Percent
GS 1 - 4	106,359	36,679	GS 1 - 4	-69,680	-65.5%
GS 5 - 8	217,410	132,221	GS 5 - 8	-85,189	-39.2%
GS 9 - 12	287,558	213,630	GS 9 - 12	-73,928	-25.7%
GS/GM 13 - 18	80,337	71,707	GS/GM 13 - 15	-8,630	-10.7%
SES	1,352	1,238	SES	-114	-8.4%
Other White Collar	29,022	56,699	Other White Collar	27,677	95.4%
Wh Col Subtotal	722,038	512,174	Wh Col Subtotal	-209,864	-29.1%
WG 1 - 5	54,093	21,184	WG 1 - 5	-32,909	-60.8%
WG 6 - 9	96,388	47,988	WG 6 - 9	-48,400	-50.2%
WG 10+	118,082	73,397	WG 10+	-44,685	-37.8%
Other Blue Collar	36,229	16,811	Other Blue Collar	-19,418	-53.6%
Bl Col Subtotal	304,792	159,380	Bl Col Subtotal	-145,412	-47.7%
Total	1,026,830	671,554	Total	-355,276	-34.6%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

RECORD VERSION

STATEMENT BY

**MR. DAVID L. SNYDER
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(CIVILIAN PERSONNEL POLICY)**

BEFORE THE

**SUBCOMMITTEE ON MILITARY READINESS
COMMITTEE ON ARMED SERVICES
AND THE
SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND
OVERSIGHT**

UNITED STATES HOUSE OF REPRESENTATIVES

SECOND SESSION, 106TH CONGRESS

ON

ARMY CIVILIAN WORK FORCE ISSUES

MARCH 9, 2000

**CLEARED
FOR OPEN PUBLICATION**

MAR 7 2000 12

**NOT FOR PUBLICATION
UNTIL RELEASED BY THE
COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES**

**DIRECTORATE FOR FREEDOM OF INFORMATION
AND SECURITY REVIEW
DEPARTMENT OF DEFENSE**

Statement of Mr. David L. Snyder
Deputy Assistant Secretary
Of the Army
(Civilian Personnel Policy)
Before the
Readiness Subcommittee, House Armed Services Committee
And the
Civil Service Subcommittee, House Government Reform and Oversight Committee

Overview of Army Civilian Workforce Issues
March 9, 2000

Mr. Chairman and distinguished subcommittee members, thank you for the opportunity to testify today on issues pertaining to the Department of the Army civilian workforce. I would also like to express my appreciation for your commitment to policies and programs that maintain the high quality, integrity, and effectiveness of that workforce and the entire federal civil service.

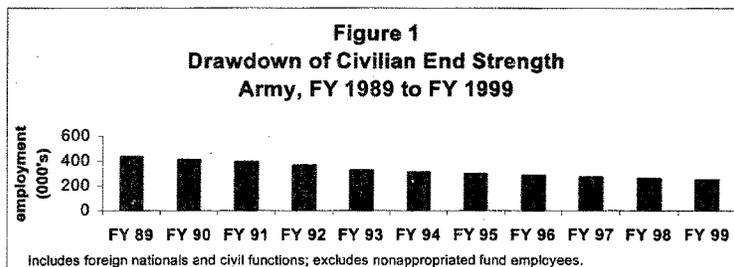
The Army civilian workforce has been and will continue to be a major contributor to military readiness, providing continuity, expertise, and commitment. Army civilians provide significant support, particularly to depot maintenance, supply, acquisition, transportation, training, deployment, medical care, research and development, engineering, and facilities operations. Over 43,000 civilians are forward stationed throughout the world. In addition, civilians have provided direct support to operations such as Desert Storm, Haiti, and the Balkans.

Many of the topics I will cover in my testimony parallel those addressed by Dr. Diane Disney, the Deputy Assistant Secretary of Defense for Civilian Personnel Policy, in her statement to you today. I will discuss Army's experience with the civilian drawdown, projections through fiscal year 2005, and related management approaches and issues, including matters in which the subcommittees have expressed an interest or which are of particular importance to the Army.

The Army Civilian Drawdown to Date

Changes in Strength

During the ten-year period ending September 30, 1999, the Department of the Army reduced its civilian strength from 434,000 to 250,000, a reduction of 184,000. At the end of this period, the Army's civilian strength had declined by more than 42 percent, in contrast to the DoD-wide reduction of over 36 percent. These figures reflect workers in civil functions as well as military functions, including foreign nationals, but exclude employees paid from nonappropriated funds.



When foreign nationals are also excluded, Army's civilian strength declined from 366,000 to 221,000, a reduction of almost 40 percent during the period.

In reporting civilian strength to the Armed Services Committees of the Congress, the Army traditionally includes only employees in military functions, with foreign nationals included. On that basis, Army civilian strength declined during the above period from 403,000 to 225,000, a 44 percent reduction.

Demographic Changes

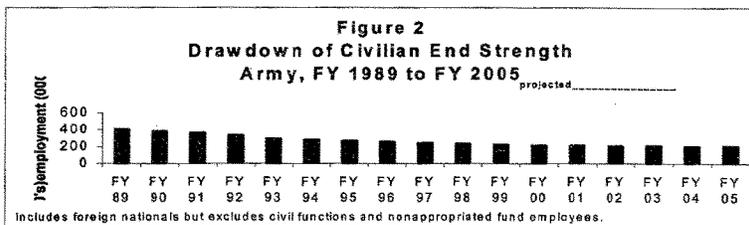
In her statement to you, Dr. Disney discussed the demographic changes in the Defense Department as a whole during the civilian drawdown. The Army generally has experienced similar demographic changes, although not necessarily to the same degree as DoD overall. The figures presented here on demographic changes reflect the Army workforce in civil functions as well as military functions, but excluding foreign nationals and employees paid from nonappropriated funds.

Gender. Gender is one of the few dimensions on which the Army's experience over the last ten years has differed from that of DoD as a whole. DoD-wide, the drawdown has made little difference in the gender composition of the workforce. The representation of women in the Army civilian workforce, however, declined somewhat, from 40.4 percent of the workforce in September 1989 to 37.4 percent in December 1999. (See Attachment 1.)

Race and Ethnicity. The racial and ethnic composition of the Army workforce has not changed a great deal since the drawdown began. Our experience has been similar to that of DoD as a whole. (See Attachment 2.)

Age and Tenure. The average age and tenure of Army civilians have increased significantly since the drawdown began. Average age increased from 43 in fiscal year 1989 to 46.6 in fiscal year 1999. Average years of service increased from 13.5 to 17.2 during the same period. Over 35 percent of the current Army workforce is aged 51 or above. There were about 15,800 retirement-eligible Army civilians at the end of fiscal year 1999, comprising 7.9 percent of the

workforce -- up from 7.3 percent the year before. The portion of the workforce aged 30 or below decreased sharply between 1989 and 1999, falling from 16.7 percent to 5.9 percent. At the end of fiscal year 1999, 69 percent of our U.S. citizen workforce were Baby Boomers, born between 1946 and 1964. In our professional, administrative, and technical workforce, 30 percent will be eligible for optional retirement in 2003; 62 percent will be eligible in 2010. The Army shares the



concerns about the transfer of institutional knowledge that are expressed by Dr. Disney in her statement. (See Attachment 3.)

Occupational Categories. In terms of absolute numbers, the Army has seen declines in each of occupational categories that we commonly use to describe workforce composition. These categories are professional, administrative, technical, clerical, other white collar, and blue collar. Like the DoD workforce overall, Army's sharpest reductions have taken place in the clerical and blue collar categories. Clerical workers have been reduced by nearly 72 percent during the drawdown period and blue collar workers by almost 47 percent. As in DoD overall, Army's smallest absolute decline has occurred in the professional category; despite a 12 percent decline in the number of professional employees, their share of the Army workforce has increased from 14 percent to 20 percent. (See Attachment 4.)

Education Level. The rise in the education level of the Army civilian workforce is similar to that of DoD overall. Based on their education levels at the time they entered the Army civilian workforce, today's employees have received more education than the workforce of ten years ago. In 1989, 4.3 percent of our workforce did not have a high school diploma at entry; that figure has improved to 1.4 percent. In 1989, 24.5 percent of our workforce possessed baccalaureate or advanced degrees; that figure has risen to 31.1 percent. In Army, as in DoD overall, there has been a shift toward jobs requiring a higher level of education. (See Attachment 5.)

Grade level. Army's experience on grade trends has been generally consistent with that of DoD as a whole. Reductions have been greater at lower grade levels, both in absolute terms and in proportion of the workforce. In 1989, 37 percent of all Army civilian positions were in grades GS-8 and below; in 1999, positions in these grades had fallen below 28 percent. The relative share of positions at higher grade levels has increased. A similar trend applies to our blue collar positions. (See Attachment 6.)

How the Army Is Downsizing

The Army reduced its civilian strength in military functions by over 178,000 from its fiscal year 1989 level, a 44 percent reduction. It has programmed civilian reductions to reach an endstrength of 209,600 by fiscal year 2005, resulting in a cumulative reduction of 48 percent.

As we draw down the workforce, its functions are being reshaped so that the functions can compete as Most Efficient Organizations (MEOs) in outsourcing competitions. Historically, cost savings from these competitions have averaged 28 percent. In-house MEOs have won almost half of these competitions. As the Army implements the Quadrennial Defense Review (QDR), the Defense Reform Initiative Decision (DRID 20), and the Federal Activities Inventory Reform (FAIR) Act, it will continue to focus on outsourcing competition as a means to further reduce civilian manpower. Additional reductions are expected if functions are outsourced.

The Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Pay (VSIP) programs have been helpful tools in reducing on-board strength. The Army uses involuntary separation procedures as a last resort. In the ten-year period from the end of fiscal year 1989, fewer than 5,200 employees were separated involuntarily. During fiscal year 1999 the Army reduced approximately 4,800 civilians through VSIP (3117), VERA (1218), reduction in force (479), and the remainder through normal attrition.

Workload management, efficiencies, application of technology, and reengineering initiatives are key to achieving infrastructure reductions and accomplishing the necessary work at optimum levels on a daily basis. Such initiatives are ongoing at all Army levels.

Staffing Implications for the Next Several Years

To counter the losses we expect as the Baby Boomers in our workforce reach retirement age, it is critical that we significantly increase our civilian recruitment at the entry grade levels, particularly in our professional and administrative occupations.

The Army Civilian Training, Education and Development System (ACTEDS) intern program is the Army's primary means of accessing and providing initial occupational and leadership training to those who will become our future civilian leaders. Studies show that interns hired and trained through this program are better educated, include a higher representation of minorities and women, are more mobile, and have a much better retention rate than employees hired at the same grade levels from other sources.

ACTEDS also ensures the planned development of our future civilian leaders as they progress from the intern level through key positions. It provides a combination of progressive and sequential work assignments, formal training, and self-development similar in many respects to the military system of developing officers. Through ACTEDS, the Army is committed to the development of competent, confident leaders essential to a high-performing workforce.

Over time, uncertainties of the civilian drawdown and the limitations on available funding for ACTEDS have had a significant effect on the Army's ability to maintain an adequately sized intern pipeline. ACTEDS funding for the intern program has been on a downward glide path from fiscal year 1989 to the present. Intern work years were reduced by 78 percent between 1989 and 1998, from 3,830 intern work years to 850. In 1999, funding supported 850 interns. Unfortunately, in fiscal year 2000 there are only enough resources to support 701 interns. This pipeline of future Army civilian leaders is not sufficient to meet the exodus of retirement-eligible civilians anticipated to begin in fiscal year 2003. As a result, the Army has funded 950 interns each year beginning in fiscal year 2001. This increase notwithstanding, we anticipate that it will become more difficult for us to fill journey level and leadership vacancies with highly qualified, well-trained, and diverse employees with the right mix of skills for the future.

Included within the ACTEDS program are funds for occupational and leadership training for civilians at the journey level and above. Due to other Army resourcing priorities, we have held our budget request for this training to the minimum necessary to sustain our workforce.

The ACTEDS intern program is focused on the white collar workforce. The Army Materiel Command (AMC) has expressed needs that go beyond this focus – creation of a multi-skilled and multi-functional cohort to support core competencies, and apprenticeship training to maintain our skill base in certain critical blue collar occupations. AMC recently submitted to Army headquarters a proposal to expand its Fellows and Apprentice Program. This proposal is currently under review within the Army.

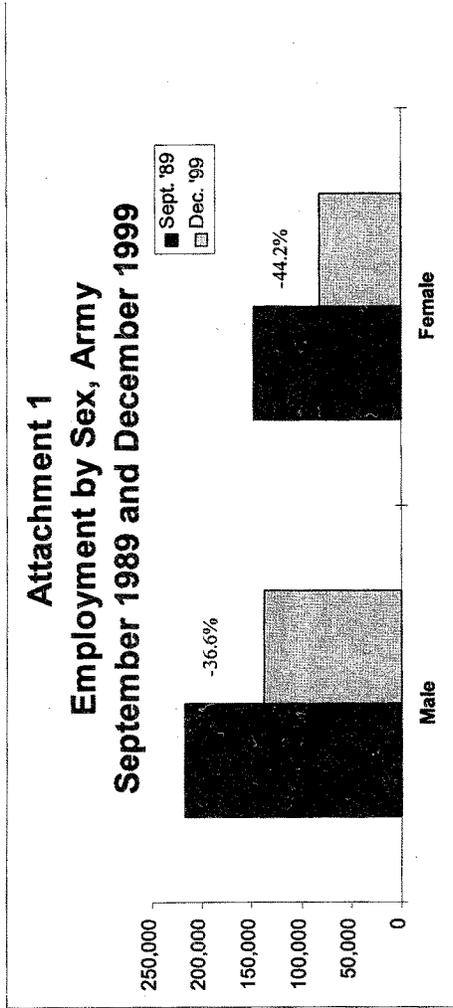
Given the strong economy and low unemployment rate, recruitment competition with other agencies and non-federal employers is intense. The Army believes that the level of federal pay and benefits is adequate to enable us to attract and retain well-qualified individuals in most fields. We are at a disadvantage in competing with the private sector, however, because of certain requirements and restrictions of the federal personnel system. The Army is participating in the development of a proposal for a DoD alternative hiring system.

Advances in Delivery of Civilian Personnel Services

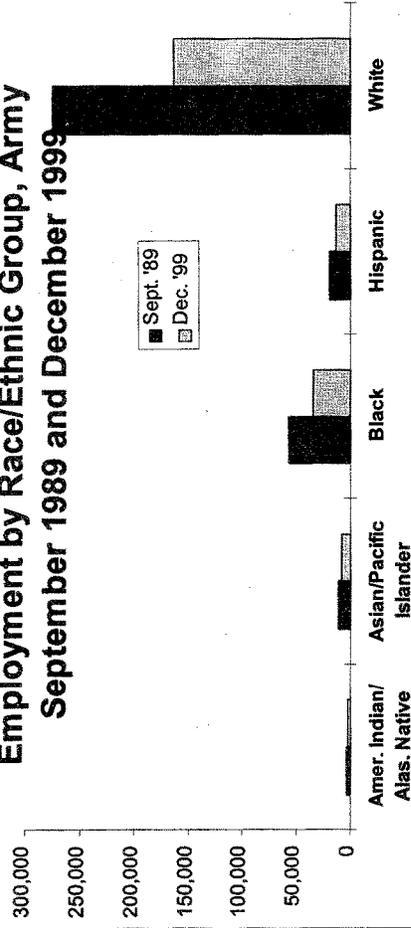
The Army is proud of its performance in meeting DoD regionalization and modernization requirements. Army's entire serviced workforce now receives regionalized civilian personnel services, with the sole exception of our employees stationed in Saudi Arabia, who are scheduled to come under regionalization early in the next fiscal year. The ten regional centers we established, three of which are outside the continental United States, are all fully operational. Implementation of regionalization has been challenging. We have aggressively addressed the needs of our customers and will continue to do so, and we are seeing indications of improvement. In October 1999, Army's Pacific Region became the first DoD site to deploy the Modern Defense Civilian Personnel Data System. Operational testing is now under way there. The modern system is designed to enhance the capabilities of civilian personnel service providers and our customers themselves. Army-wide deployment of the modern system is planned to begin in late March 2000 and to be completed by December 2000.

Conclusion

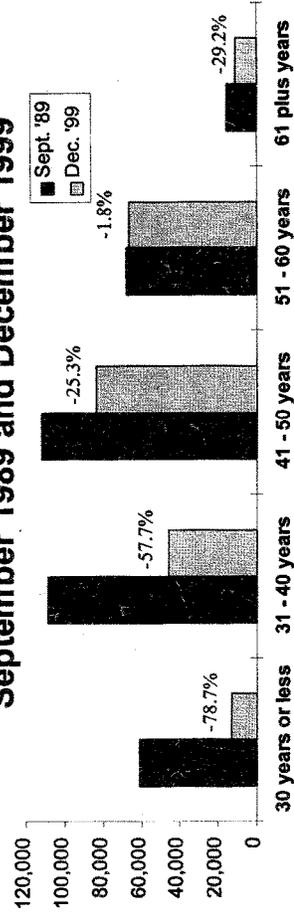
This concludes my remarks. Thank you again for this opportunity to present the Army's views on matters pertaining to the management of our civilian workforce. I will be pleased to answer any questions you may have.



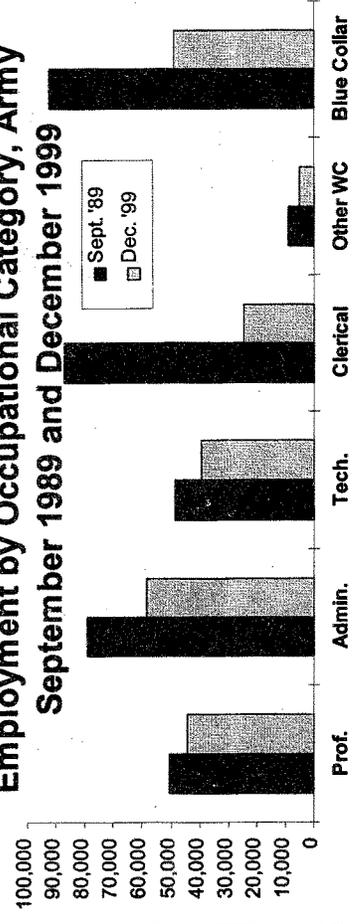
Attachment 2 Employment by Race/Ethnic Group, Army September 1989 and December 1999

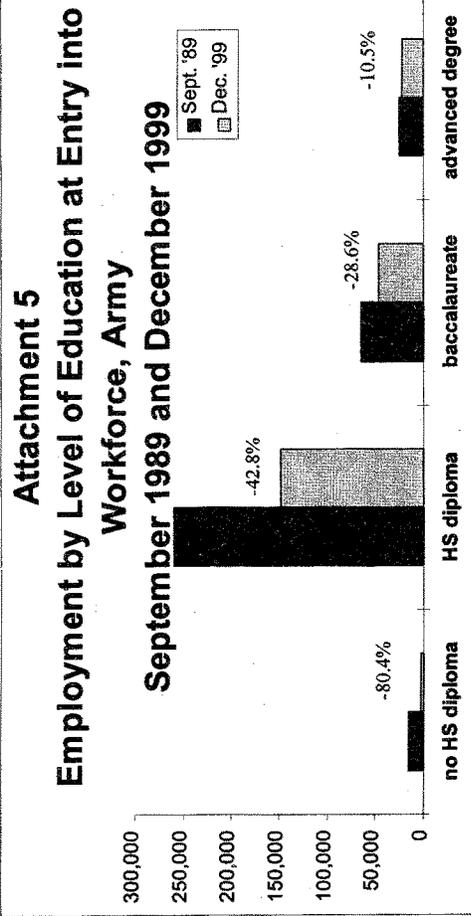


Attachment 3 Employment by Age, Army September 1989 and December 1999

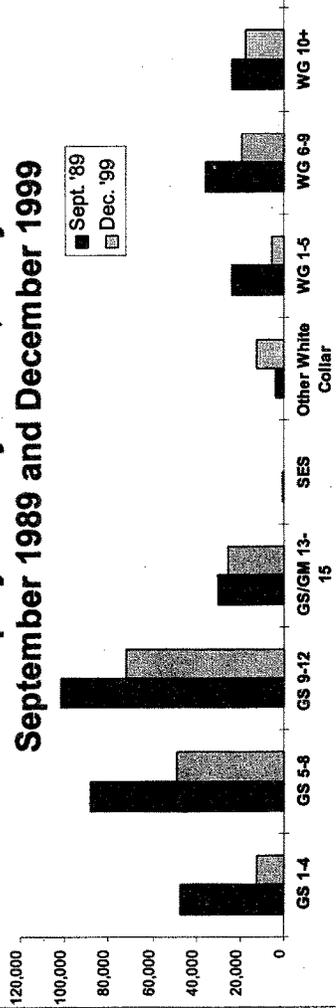


Attachment 4 Employment by Occupational Category, Army September 1989 and December 1999





Attachment 6 Employment by Grade, Army September 1989 and December 1999



NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE ARMED
SERVICES COMMITTEE

Statement of Ms. Betty S. Welch

Deputy Assistant Secretary of the Navy

(Civilian Personnel/Equal Employment Opportunity)

Before the

Readiness Subcommittee, House Armed Services Committee

and the

Civil Service Subcommittee, House Government Reform Committee

9 MARCH 2000

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE ARMED
SERVICES COMMITTEE

Statement of Ms. Betty S. Welch
Deputy Assistant Secretary of the Navy
(Civilian Personnel/Equal Employment Opportunity)
Before the
Readiness Subcommittee, House Armed Services Committee
and the
Civil Service Subcommittee, House Government Reform Committee

**Downsizing the Civilian Workforce
in the
Department of the Navy**

Mr. Chairman and members of the subcommittee, I am pleased to be here today to provide testimony about the civilian workforce of the Department of the Navy.

I would like to talk to you today about how the Navy and Marine Corps reduced their total U. S. citizen civilian workforce from approximately 331,000 employees in 1989 to fewer than 187,000 employees at the end of Fiscal Year 1999. I will also address the ways in which the Department of the Navy develops its projection of annual civilian force reduction requirements, and the extensive and successful efforts we have made to reduce the negative impact on our employees. Finally, I will discuss the profile of the Department's current civilian workforce and the steps we have taken or are planning to take to prepare for the civilian workforce of tomorrow.

THE CIVILIAN DRAWDOWN FROM 1989 - 1999

From September 1989 through December 1999, the civilian workforce of the Department of the Navy reduced by 144,479 employees, or nearly 44 percent. Included in the reduction were more than 21,000 employees of four naval shipyards, nearly 10,000 employees at three aviation depots, and almost 13,000 employees at five separate warfare centers, all closed as a result of BRAC decisions. The BRAC process accounts for a large portion of the downsizing which occurred in the Department over the past 10 years. The magnitude of these reductions and the relatively brief time period during which they occurred, present both challenges and opportunities to the Department of the Navy if we are going to continue to excel in meeting the military mission of our naval forces.

In spite of the decade of downsizing, we have been able to mitigate the impact on our employees by using some very effective tools. Before separation incentives or buyouts were available, the DoD Priority Placement Program (PPP) served us well. During fiscal years 1989-1992, we had 9,438 separations

due to downsizing actions. Of those, 44 percent were placed through the PPP and 56 percent were involuntarily separated. When buyout authority became available in 1993, we were heading into the peak of our downsizing years, and fewer positions were available for PPP placements. From that time to the present, we have had over 92,500 downsizing related separations. Of those 53.2 percent were buyout takers, 29.5 percent were PPP placements, and, significantly, only 17.3 percent were involuntary separations.

**Planning And Implementing Civilian Reductions
In The Department Of The Navy**

As many of you already know, the Department of the Navy takes a slightly different approach to civilian reduction in force planning than other components of the Department of Defense and other civilian agencies. Since 1995, we have compiled and presented to the Congress, a single annual projection of the Department's planned civilian reductions for the upcoming year. The data are gathered from field activities and commands in concert with the budget development process. We have found this process to be an effective way of projecting the impact on our civilian workforce.

We see this annual projection or plan as a starting point, not a fixed outcome. By aggressively using existing authorities for separation incentives, early retirement, retraining, and outplacement, we have consistently reduced the number of projected involuntary separations by at least 50 percent. Also, since civilian resources are owned and managed by the Navy and Marine Corps commands and activities for whom they work, this planning process allows us to corporately manage the impact of downsizing on our employees.

Downsizing Demographics (See Attachment 1)

When we look at the diversity of the Department's workforce post-downsizing, we see a number of interesting results. In 1989, 30 percent of our workforce was between 31 - 40 years of age and another 30 percent were between 41 - 50. In 1999, less than 23 percent were between 31 - 40, and nearly 39 percent were in the 41 - 50 year old group. Similarly, in 1989, approximately 16 percent of our workforce was eligible for early or optional retirement. By 1999, that figure was close to 34 percent. But the most telling statistic of all is the dramatic reduction in the number of employees below age 31. In September of 1989, the Department of the Navy employed 60,535 individuals aged 30 years

or less. At the end of 1999, that number was 10,530, a reduction of 50,005 employees, or 82.6 percent.

Planning For The Workforce Of The Future

As a result of years of downsizing, the Department of the Navy employs a workforce that is rapidly approaching retirement age. Examining just the core business of the DON we find troubling statistics. In the next five years, 47 percent of our engineers, 55 percent of our scientists, 70 percent of our computer specialists, and 64 percent of our contract specialists will be eligible for retirement. When we look at potential replacements in the pipeline, we find that in 1989, we had 2.25 employees to replace each departing or retiring employee. In 1999, that number was reduced to less than one employee (.82). These statistics tell us that we need to take a close look at how we will recruit and maintain the critical civilian workforce of the future.

Historically, our field activity and headquarters commands have competed against other public and private sector organizations, and sometimes inadvertently against each other, for abundant labor resources. In this competitive environment, however, tradition has to give way to innovation. As the labor shortage intensifies, competition for qualified, dedicated employees is becoming even more challenging. The Department of the Navy is committed to improving our efforts and our results in attracting a workforce that reflects the diversity of our nation and meets our mission needs.

We are revitalizing our recruiting efforts to ensure that accurate and effective job information is readily available to a cadre of well-trained and experienced recruiters. This year, we will be conducting recruiter conferences and training aimed at enhancing our recruitment efforts at colleges, universities, and career fairs. We have developed standardized guidelines and materials for use by recruiters, and identifying opportunities for sharing resources and best practices. Our goal is to ensure the Department of the Navy is seen as an employer of choice by our current workforce and by high quality candidates for our future jobs.

Apprenticeship Programs

The Department of the Navy has a long and illustrious history of hiring and training the best deck-plate workforce in the world. Our shipyards and aviation depots, bases and stations, operated first-class programs developing journey-level

workers for all of the traditional, and a few Navy-unique, blue-collar jobs. During the last 10 years, our apprentice programs slowed down to a trickle.

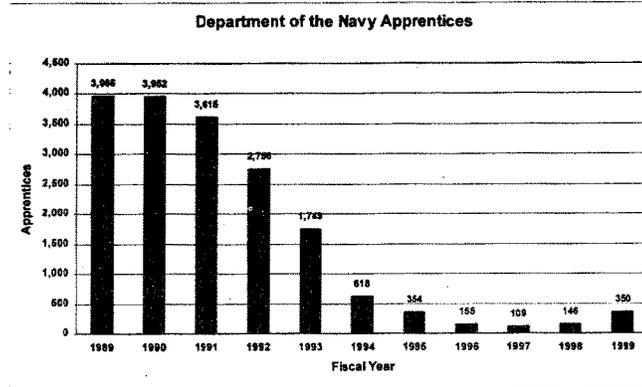


Figure 1

More recently, the Navy has received additional funding earmarked for revitalization of the apprentice program. Shipyards in Pearl Harbor, Puget Sound, and Norfolk are operating at maximum capacity. Puget Sound is currently recruiting for 140-150 apprentices and Norfolk is looking for 120 motivated candidates. Pearl Harbor plans to add an additional 100 apprentices to its program this year.

Regionalization of Civilian Human Resources Management

The Department of the Navy's civilian human resources community has focused a high level of effort and energy in pursuit of one of the most ambitious reorganizations of civilian human resources management in the past thirty years. We have made tremendous progress since deciding in 1996 to compress the 5-year regionalization schedule down to 2 years. Within the new schedule, we opened eight Human Resources Service Centers (HRSCs), six in CONUS and two OCONUS, that partner with 65 Human Resources Offices and satellites to provide service to approximately 187,000 civilian employees.

Regionalization is working, but is not problem free. Some of our HRSCs have experienced trouble adjusting to the new

organizational structure, new standardized procedures and the tremendous processing workload. We recognize these problems and are working hard to solve them.

We have been challenged by reductions in resources. Our plan for regionalization and systems modernization will eventually eliminate approximately 1100 civilian billets with resultant cost savings. However, the Department of the Navy has been unable to achieve those savings as fast as anticipated when putting this plan together. Therefore, this decision has reduced our flexibility to adjust to problems in servicing and technology.

Our personnel reductions and process improvements were based on deployment of new technology (the Modern System) to be provided by DoD. HRSC Northwest is our operational test site for the DoD Modern System. Full scale deployment to the remaining seven HRSCs has been delayed on several occasions because of critical functionality issues. We are working closely with DoD to resolve these issues in order to meet the current schedule. We now expect to deploy the Modern System to our remaining seven HRSCs during calendar year 2000.

Commanders and managers serviced by our more mature HRSCs are beginning to experience some of the benefits of regionalization. They are telling us that service is improved, jobs are getting filled quicker and quality and timeliness are improving. We are encouraged by the results of the recent implementation of the reengineered recruiting process and software at our HRSC in San Diego. Initial reports are positive. For example, under the new process, HRSC Southwest reduced the time it takes to fill a job by approximately 50 percent. While this is encouraging, we also know the tremendous amount of work and increased resources it took to make this happen.

We are also very proud of the fact that our Human Resources Service Center Northeast, located in Philadelphia, was the recipient of the Vice President's Hammer Award for their efforts to hire and train employees to work in our Center as part of Department of Labor's Welfare to Work program.

EEO Reengineering

One of the most exciting things we have accomplished in the Department of the Navy's civilian human resources organization over the past few years has been the establishment of the EEO Reengineering Project. The project was launched in 1997 with

the ambitious goal of reengineering the EEO complaints process. The existing system was broken; cases took years to be resolved and created winners and losers where there should have been dialog and cooperation. The development of multiple dispute resolution initiatives was the key which helped us to get this successful program underway.

After extensive consultation with employees and managers at our field activities, we established a pilot program which gives our employees the option to select either the traditional Equal Employment Opportunity Commission (EEOC) process involving a formal investigation and final decision by the Secretary of the Navy, or the new pilot process incorporating dispute resolution techniques with a final decision by the activity commander. Both processes allow the employee to file an administrative appeal with EEOC if they remain dissatisfied at the end of the process.

The results to date are extremely encouraging. Between June 1998 and December 1999, 149 EEO complaints were filed at the pilot activities.

- 91 employees chose to follow the pilot process.
- 87 of those complaints have been resolved, using mediation, conciliation, early neutral inquiry, and/or settlement conferences.
- The resolved complaints took an average of 31 days.
- Using just the salaries of the personnel involved, we estimate the average cost at less than \$2,000.
- The average cost of processing a complaint to Final Agency Decision using EEOC procedures is more than \$40,000.

We calculate that the pilot process has already saved the Department of the Navy more than \$3M, and we are just beginning to see the savings. Perhaps more important than the dollar savings, the real result of the EEO Reengineering pilot is the empowerment of employees to take an active role in the resolution of their complaints--the opportunity for participants to state their cases in a neutral forum, which protects employee rights and saves the taxpayers' money.

We are now expanding the pilot to several additional field activities and expect to see a continuation of these positive results.

Family Friendly Workplace Initiatives

In the Department of the Navy, family friendly workplace programs are an integral part of our efforts to remain a competitive employer of choice in the 21st century. We strongly encourage our commands and activities to take advantage of flexible family friendly work arrangements, including job sharing, part-time employment, alternative work schedules, telecommuting, and satellite work locations.

We continue to be in the forefront of the Federal telecommuting initiatives. We have more employees utilizing the various GSA Telecenters in the Washington metropolitan area than any other Federal agency or department. Many of our commands outside the Washington metropolitan area have also established telecommuting pilot programs. We encourage our field activity commanders to implement family friendly programs because it makes good business sense to do so, and because it's the right thing to do.

Legislative Changes

The Department of the Navy appreciates the efforts of the Congress to improve our ability to recruit and retain a high quality workforce. It is still too early to know the extent of the impact of the recent repeal of the reduction in retired pay of former military officers (the dual-comp law). We anticipate that it will greatly enhance our ability to attract these highly trained and skilled individuals to join our workforce in a civilian capacity without a financial penalty to them.

This and other similar legislative changes help us compete with public and private sector recruiters as the labor market tightens. Our demonstration projects already use pay-banding and contribution-based salary and awards systems. These tools increase our flexibility to offer starting salaries that will attract new applicants. They also insure that salary increases and awards reflect the value of our employees' contributions to our mission. In the future we hope to be able to use these tools for the rest of the workforce.

Conclusion

In conclusion, I want to thank you for the opportunity to tell the story of civilian human resources management in the Department of the Navy. We're proud of our accomplishments in support of our civilian employees. With challenges such as

regionalization, downsizing, strategic sourcing, and technology changing the way we do business, a viable, flexible, and multi-skilled civilian workforce will continue to be a critical part of our total force. The Department of the Navy's HR community is committed to providing a mission-ready civilian workforce by ensuring that we have the right people in the right place at the right time. In the spirit of our naval forces, we have seen the challenges ahead and will meet them full-speed.

DEPARTMENT OF THE AIR FORCE

**PRESENTATION TO THE COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON MILITARY READINESS
UNITED STATES HOUSE OF REPRESENTATIVES**

**PRESENTATION TO THE COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES**

SUBJECT: CIVILIAN PERSONNEL READINESS

**STATEMENT OF: THE HONORABLE MARY LOU KEENER
DEPUTY ASSISTANT SECRETARY FORCE
MANAGEMENT AND PERSONNEL
UNITED STATES AIR FORCE**

9 MARCH 2000

**NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEES ON ARMED SERVICES AND GOVERNMENT REFORM
SUBCOMMITTEES ON MILITARY READINESS AND CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES**

INTRODUCTION

Mr. Chairman and members of the subcommittee, I appreciate the opportunity you have provided us today to testify on issues surrounding the civilian workforce and readiness. This is indeed an unparalleled opportunity to demonstrate and discuss the importance of civilian workforce contributions to the Air Force mission.

Readiness is not just a word, it is a state of being. Our equipment must be in superior shape, ready to facilitate carrying out our expeditionary mission; our infrastructure must be ready to support that mission; and most importantly, our **people** must be ready to take immediate action to accomplish the required mission. We rely on all Air Force members—military, civilian, Reserve, and Guard—to promote National Military Objectives through an acute state of readiness. The contributions of each group are integrated into one seamless strategic plan directed toward that goal. Throughout our Air Force history, **civilian employees** have played valuable roles in sustaining the readiness of the Air Force.

Air Force civilians have deployed to several operations, thus contributing directly to readiness. Over 200 civilians deployed in support of Desert Shield/Storm and over 40 deployed to support our efforts in Kosovo. Today, we have civilian members deployed supporting Operations Northern and Southern Watch as well as Red Flag Exercises. Indirectly, all civilian members contribute to our readiness by maintaining operations in garrison or standing available for our many reach-back operations. Thousands of Air Force civilians have made major contributions to readiness through technology advances in our research laboratories, and force support and maintenance and repair in our Air Logistic Centers and depots. It takes all of these contributions and the synergy and flexibility

created by a Total Force that is ready to respond when called upon, to make us the preeminent Expeditionary Aerospace Force in the world.

STATUS OF THE CIVILIAN DRAWDOWN

The Air Force civilian workforce has experienced tumultuous and vigorous downsizing, decreasing 37% since FY89 where it stood at 260,000 total members. Ten years later, we have 165,000 employees, the smallest level in almost 40 years, contributing to the readiness of the Air Force. We still have 8,000 more to drawdown to get to 157,000 by FY03. When we get there, our civilian force size will be only 63% of what it was in FY89.

The drawdown was accomplished almost completely through voluntary separations, thus drawing down in a humane and efficient manner. Our philosophy for managing our current drawdown has consistently been to use voluntary programs first, and to use involuntary Reduction-in-Force (RIF) only as a last resort. We are proud that since 1989, only about 9.2% of over 100,000 separations have been involuntary. As an integral part of our drawdown philosophy, we offer robust transition assistance through our Air Force Family Support Centers.

We used the DoD Priority Placement Program, placing members in other positions in and outside the Department of Defense. Since 1989, more than 14,800 Air Force employees retired through the use of the Voluntary Early Retirement Act (VERA) authority. Additionally, from FY93 to present, another 24,000 employees took advantage of the Voluntary Separation Incentive Pay (VSIP) program.

Declining DoD workload will continue to cause civilian position reductions in the depots through the end of FY00. A total of 3,035 Air Logistics Center (ALC) employees were registered in the DoD Priority Placement Program (PPP) as of February 24, 2000.

Two Air Logistics Centers will close as a result of 1995 Base Realignment and Closure Act decisions: San Antonio Air Logistics Center (SA ALC), Kelly Air Force Base (AFB), Texas, and Sacramento Air Logistics Center (SM ALC), McClellan AFB, California. 1,348 Kelly AFB employees since November 1996 and 1,111 McClellan AFB employees since March 1997 have been placed through the use of the PPP. Early retirement authority and separation incentives are currently in use at bases, which have projected RIFs.

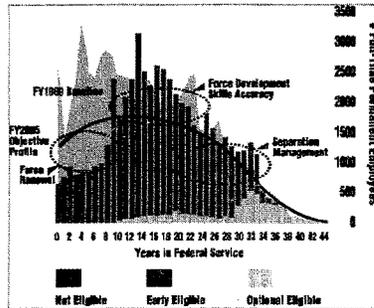
Voluntary separations and retirements were maximized in order to avoid disruptive reductions in force that would almost certainly impact readiness. However, managing separations and retirements alone was not sufficient to successfully draw down our civilian workforce. A long-standing practice in the Air Force, we "stockpiled" vacancies to use for employees who would otherwise be separated through RIF. Of a necessity, we limited the number of new hires and also filled existing vacancies with "experienced" hires in order to meet pressing near-term mission readiness requirements. This prolonged constraint of accession management has led to atrophy of our junior force. Our massive drawdown efforts, as well as a limited influx of new employees with state-of-the-art skills have impacted the profile of our civilian workforce.

The dynamics associated with this dramatic and prolonged downsizing have left a civilian workforce that is in need of some targeted force shaping. To ensure a vital and mission ready civilian workforce of the future, the remaining smaller workforce must be correctly balanced, with the right mix of skills, experience levels, and training. The Air Force has developed a three-pronged workforce shaping strategy to achieve this balance. Accession planning, force development, and separation management constitute the three main elements of our civilian workforce management strategy. This

strategy is consistent with the President's mandate to make human resources management a target of improvement this year, and it is essential to ensuring that the civilian workforce continues its important contribution to Total Force readiness.

CIVILIAN WORKFORCE SHAPING

To sustain our civilian workforce, we need the right mix of new, mid-level and senior employees. In the last 10 years we have seen a 62% drop in employees with less than 8 years of service and 11% increase in the number of our employees who are



eligible for optional retirement. In 5 years, over 45% of our civilian workforce will be eligible for optional or early retirement. This imbalance occurred through a combination of voluntary loss programs and constrained accessions. Loss programs included early retirements and separation incentives

that trimmed the more senior year groups while minimizing involuntary actions, such as reductions in force. Constrained accessions limited the number of new hires while the force was reduced over the last 10 years. These factors, if not corrected, are leading to sustainment problems and a shrinking pool from which to select future civilian leaders.

The Air Force Material Command (AFMC) employs the largest number of civilian employees in the Air Force, with a mission that directly impacts the readiness. Over the next 7 years AFMC is expecting to replace over 45% of their current workforce. A third of those will need to be at the developmental level, with 60% at the non-supervisory, journeyman level. In a tight, highly skilled market place, both of these

objectives will present significant challenges, with attendant cost implications. This year, for the first time, AFMC will have more employees covered by the portable Federal Employees Retirement System (FERS) than they will have covered by the Civil Service Retirement System (CSRS). The true impact of the continued migration to a FERS workforce is unknown, but it is predictable that this will necessitate adjustments to accession strategies.

Currency of skills, particularly in our high-tech workplace, is an important issue in civilian force management. To avoid skill imbalances, a more corporate approach to training, education, and development of our civilians is a priority. Without an adequate influx of new employees with current, state-of-the-art skills, our acquisition, scientific, and technical workforce is not sustainable.

To provide commanders with a state-of-the-art, sustainable civilian workforce capable of meeting tomorrow's challenges, we are working on the following solutions: managing our accessions with properly sized force renewal programs; pursuing legislative initiatives that would help us entice scientists and engineers from academia and industry to invigorate our research laboratories; expanding and targeting training and retraining; and pursuing legislative initiatives for separations management through the use of buyouts (incentives) for voluntary, targeted force shaping. Such legislative authority would help stimulate sufficient turnover from the segment of the work force with the most years of service, to ensure we have headroom for new developmental hiring (with current state-of-the-art skills and technological expertise). Targeting this authority would also ensure that we do not lose all of our valuable experience at the senior levels needed to maintain a proper workforce balance.

Civilian Workforce Shaping Summit

In February 2000, the Air Force held a Workforce Shaping Summit to develop integrated strategies and initiatives to address force-shaping challenges. Working groups, involving stakeholders from all levels in the Air Force, addressed the elements of our strategy: accession planning, force development (training and re-training) and retention/separation management issues. The Summit ended with the group prioritizing future initiatives. As a follow-on to the Summit, focus groups will interview stakeholders at various sites. We are working to turn these initiatives into legislative proposals where necessary and revised policy and procedures.

THREE-PRONGED WORKFORCE SHAPING STRATEGY**Accessions Management**

The first element in our workforce shaping strategy is force renewal. We appreciate the legislative relief from dual compensation limits in the FY00 legislation. Now, the Air Force has vital incentive tools to draw the valuable expertise of retired military back to the workforce. This positive tool is not however, without it's challenges in a workforce that is already out of balance in terms of years of service. These hires will come into the workforce late in their working careers and will not help us solve the long-term force sustainment and renewal requirements identified earlier.

To sustain our civilian workforce, we need the right mix of new, mid-level, and senior employees with competencies to fill future key positions. To address these needs, the Air Force plans greater investment in interns and other developmental trainees to provide stability to our long-term sustainment efforts. Our efforts today are focused on right-sizing our centrally-managed intern programs. While changing local hiring policies could help accelerate workforce re-balancing, we must ensure that our

accession programs produce a mobile cadre that is willing to gain the breadth of experience which is critical to our force of the future.

Force renewal is particularly critical in depot maintenance. The depot maintenance community has experienced decade long hiring restrictions and base closure and realignment actions that have resulted in an imbalance both in skills and levels of experience (years of service). We will continue to lose employees, resulting in a requirement for considerable efforts in hiring, particularly in Blue Collar occupations. Renewal is no less important in the other major mission areas of AFMC such as the Air Force Research Laboratory and the various product and test centers. All of which drive the Air Force readiness equation.

AFMC is also aggressively looking at existing authorities to address their concerns. They are exploring greater use of Delegated Examining Authority and expanding their use of recruitment and relocation bonuses.

One of the chief criticisms of our personnel system is that our hiring processes are inflexible and too time consuming and therefore do not allow us to be competitive for highly skilled talent. We support the DoD alternative hiring system mentioned in Dr. Disney's statement and will soon be asking for it to be included in our Air Force Research Laboratory demonstration project. Ranking applicants into categories, eliminating the "rule of three" and providing direct-hire authority for hard-to-fill positions will provide some additional flexibility without compromising merit principles and veterans' preference. Flexibility is particularly crucial as we seek to maintain a highly skilled core of scientist and engineers in our laboratories that can meet the dynamic technological challenges of the 21st century. The civilian workforce contribution to readiness is never more evident than in this critical environment. In the laboratories we

need an agile workforce capable of quickly expanding and contracting with changing need; the ability to emphasize new ideas and people flowing through the organization. We must have personnel processes that facilitate refreshment of this highly skilled group rather than impede it. The Air Force is working a proposal that will allow for the hiring of a limited number of eminent scientists and engineers (similar to the DARPA authority) who would provide the "flow through" refreshment to the labs without damaging their career objectives with their current employers (either industry or academia). Enticements that need further consideration are competitive compensation, reciprocal retirement arrangements, and terms of service.

Training and Retraining

Force development involves education, training, and retraining for skills proficiency, breadth of experience and leadership development. The Air Force is a technical force with large numbers of civilian employees in R&D and other highly technical occupations, where skill currency is a critical issue. Skills proficiency is being emphasized through professional continuing education, training, and re-training programs. The Air Force is also investing in leadership development programs to ensure a cadre of senior executives with the breadth of experience and knowledge of AF culture is available to meet future needs.

We strongly support the DoD initiative to restructure the restriction on degree training. This would further enhance the investment we already have in our employees, would strengthen their commitment to the organization and ultimately would ensure the readiness of the force because of the enhanced knowledge and skills that are brought to bear on the job.

The Air Force must invest in training and re-training our current employees to keep them up to date in a rapidly changing environment. As we downsize, we will lose some employees with outdated skills and hire some with new skills. But where possible, the Air Force must provide an opportunity for "re-skilling" in order that we not lose our investment in valuable employees.

A key issue for AFMC is the overall issue of training the current and new workforce to meet the challenges of the future depot environment. Meeting this training challenge requires a significant investment in training dollars. Depot maintenance does not limit its training concerns to those produced by the arrival of new aircraft requirements. Technological changes in managing the entire spectrum of resources - aircraft, equipment, people, and finances - place increasing training demands on depot maintenance middle and senior managers.

In summary, our civilian force development plans must achieve several goals:

- We must develop a cadre of civilian employees who complement the military force through increased attendance in PME courses.
- We must provide cross-functional experiential assignments, to provide future civilian leaders breadth of experience.
- We must provide professional continuing education to acquire and keep the civilian workforce current and proficient in whatever skill set needed to perform.
- We must provide a system for "re-skilling" the workforce.

Separations Management

The Air Force has been very successful using the existing programs to bring the workforce down rapidly. However, better tools are needed to stimulate and manage separations (turnovers) in our workforce. Separation management would utilize voluntary, targeted force shaping incentives to stimulate losses/create vacancies to allow hiring and re-balancing of our skills and experience mix. Any additional voluntary retirements, early retirements, and resignations would create vacancies that could be filled, at least in part, by new accessions. Representation in the more junior years-of-service groups would improve, resulting in a more balanced workforce.

The Air Force has consistently proposed a legislative initiative to expand the use of Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Pay (VSIP) as tools for force shaping to meet mission needs. In many cases, our organizational reengineering plans are tied to actions that do not necessarily result in the loss of authorizations, or workforce reductions. For example, changing an occupied supervisory position to a lower grade non-supervisory position to improve the supervisory ratio does not mean we are losing an authorization. With VSIP/VERA for voluntary, targeted force shaping as an alternative, the agency would create a vacancy at the lower grade by incentivizing a separation action.

REGIONALIZATION

On a very practical level, the National Performance Review initiatives on civilian resource management (in particular, the reduction of personnel staff by 50%) have caused us to re-look at how we provide human resource management services to both our employees and our managers. One response to the NPR was to establish regional service centers. The Air Force had a great deal of experience (and existing

infrastructure) with our Air Force Military Personnel Center in San Antonio, Texas. Recognizing the need to make the most of the valuable skills of both our military and civilian personnel staff and acknowledging that soon it would be a significantly smaller staff, we had already begun to integrate, where practical, personnel management policy and processes. With the mandate for regionalization of civilian personnel operations, the natural step for us was to integrate our military and civilian operations at the military personnel center in San Antonio. In July 1995, the PALACE Compass Regional Service Center (the operations center for the regionalization of civilian personnel servicing and data systems modernization) was established at what is now the AF Personnel Center.

The purpose of this Center is to provide technical, administrative, and operational support to the AF civilian personnel and flights at our bases, and to decrease the ratio of civilian personnelists providing services to the number of personnel receiving those services. By the end of FY99 we had decreased our manpower assigned to the civilian personnel function from 3,004 (FY94) to 2,250 and increased our servicing ratio from 1:60 to 1:67. Beginning in August 1996, we began to migrate servicing for our civilian personnel flights (CPF's) to the Center (AFPC). Currently, 71 of 93 bases have completed the transition.

Regionalization is an evolving effort and we learn as we implement. In July 1998, we began to reassess the workload split between the CPF's at the bases and the AF Personnel Center. The continued transfer of work from the CPF's to the Center was delayed to stabilize the workload and workforce at the Center. In January 1999, some work and manpower was returned to the bases to reduce the workload at the Center. Centralizing civilian workforce database management was completed in January of this

year. We have developed a state of the art system to provide Benefits and Entitlements (B&E) Services to our people. Now, B&E services for all AF (US citizen) employees are currently being transitioned to the Center; we will complete this effort in November 2000.

A critical piece of our regionalization effort is deployment of the modern Defense Civilian Personnel Data System (DCPDS). In November 1999, initial operating capability (IOC) was established for our AF test bases. We are working to resolve some development and deployment issues with the data system and currently the AF is scheduled for full operating capability (FOC) in November 2000. A robust management information system is essential to successful regionalized civilian personnel management operations.

COMPETITIVE SOURCING AND PRIVATIZATION (CS&P)

In today's environment of tight budgets, we must find more efficient, economical and expeditious ways to perform our mission. The need to invest in modernization and the search for improved business practices has led to a measured competitive sourcing and privatization (CS&P) program.

CS&P efforts are occurring concurrent with drawdown endeavors and add a complex dimension to building and executing our civilian workforce management strategy. The overarching goal of CS&P is to free up critical dollars for readiness and modernization through a competition to perform commercial services open to both private contractors and government employees. As such, it provides a means to adjust the in-house workforce levels through implementation of either "most efficient organizations" (MEOs) or through contracting out. While civilian employees were

already contending with drawdown initiatives, CS&P continues to raise the anxiety level over potential impending loss of jobs.

To date, we have identified approximately 40,000 candidates to be studied under OMB circular A-76. Civilian employees account for about 50% of these candidates. We will continue to use the Annual Commercial Activity Inventory process under A-76 to identify additional candidates. We are working hard to incorporate CS&P into our civilian workforce management strategybut recognize it does complicate attempts toward workforce balancing.

CIVILIAN MORALE

Although it is difficult to measure the impact of the drawdown and CS&P on morale, we have anecdotal evidence to indicate as downsizing continues and the number of studies of commercial activities eligible for competition increases, the level of anxiety in our civilian workforce generally increases. We are trying to minimize this anxiety by keeping affected employees informed of events as they happen. This will allow our employees to make intelligent decisions based on fact, not perception. A coherent civilian workforce management strategy is key to maintaining a knowledgeable civilian workforce.

Civilian employee inputs to the 1999 Chief of Staff of the Air Force Survey were positive: 85% believe the Air Force is a good place to work, 75% are satisfied with their jobs and 56% say the morale in their unit is high. We believe the current good morale of our civilian workforce is largely based on our people-oriented approach to managing the drawdown thus far. However, since this drawdown has extended over more than a decade, we are now seeing civilian workforce imbalances. As we continue to draw down our civilian force over the next 3 years; it is imperative that we develop workforce

strategies and better tools to ensure our civilian workforce of the future can continue to make critical contributions to Air Force readiness and mission accomplishment.

IN CLOSING

The Air Force depends upon a high state of readiness in order to execute national objectives. All Air Force people—military, civilian employees, Reserve, and Guard members—are essential to our readiness. Civilian employees have always been, and will continue to be, a major segment of the Total Force that is essential to our overall readiness.

Five years ago the Air Force began to move toward better integration of the management of our civilian and military workforces in recognition that all elements of the Total Force working together in a seamless manner are critical to our readiness and our mission. People continue to be our most critical resource in today's Air Force and, at the dawn of a new century, the Air Force needs to use the best force mix to do our job. We appreciate the opportunity to address how improved management of the civilian component of the Total Force contributes to maintaining a ready Air Force.

Statement of Mr. David O. Cooke
Director of Administration and Management
Office of the Secretary of Defense
Before the
Readiness Subcommittee, House Armed Services Committee
Civil Service Subcommittee, House Government Reform Committee

Overview of Civilian Personnel Assigned to DoD Organizations Outside
Of the Military Departments

March 9, 2000

Mr. Chairman and members of the subcommittee, I am pleased to be here today to provide testimony regarding that portion of the DoD civilian workforce assigned to DoD organizations outside of the three Military Departments. We commonly refer to these organizations as the department's "4th Estate." My principal focus this afternoon will be on the composition of the 4th Estate and the nature of its workforce.

Composition of the 4th Estate

The DoD's 4th Estate is composed of the Office of the Secretary of Defense (OSD), the Joint Staff, 14 Defense Agencies, 7 DoD Field Activities, and related departmental level organizations. (See Attachment A-1.) 123,000 civilians were employed in this sector of the department at the end of FY 1999, accounting for 17% of the Department's total civilian strength.

Organizations within the 4th Estate vary considerably in size, ranging from the Office of Economic Adjustment, the smallest DoD Field Activity with fewer than 50 civilian employees, to the Defense Logistics Agency, which employs more than 38,000 civilians.

Each of the Defense Agencies and DoD Field Activities is established by the Secretary of Defense under the authority of 10 U.S.C. 191 and, consistent with 10 U.S.C. 192, each reports to a principal official on the OSD staff, who provides oversight and direction on behalf of the Secretary of Defense. (See Attachments A-2 and A-3.)

Despite the fact that these organizations are generally grouped together under the heading of the 4th Estate, it would be a mistake to consider them as a homogeneous entity. In fact, each has very different missions and functions, reporting channels, and operational requirements. The Defense Logistics Agency, for example, which reports to the Under Secretary of Defense (Acquisition, Technology and Logistics), provides logistical support to our combat forces; the

Defense Finance and Accounting Service, which reports to the Under Secretary of Defense (Comptroller), provides payroll and other finance and accounting services to all our civilian and military employees, as well as other finance and accounting services; and the DoD Education Activity, which reports to the Under Secretary of Defense (Personnel and Readiness), operates a world-wide school system and provides adult education programs for military personnel.

A mistake commonly made outside of the Department is to consider Washington Headquarters Services (WHS), a DoD Field Activity, as an extension of the Office of the Secretary of Defense (OSD). WHS provides a wide range of operational and program support to a wide range of DoD Components. Among other things, it operates a police force, maintains office facilities, operates a regional personnel services center, and provides voting assistance to military personnel and to US citizens residing overseas. OSD, on the other hand, provides corporate level policy advice and assistance to the Secretary of Defense. It focuses on policy development, corporate level resource management, and long range national security and defense planning. These are very different organizations, each with unique missions and workforce requirements.

Nature of the Workforce

A profile of the 4th Estate civilian workforce is provided in Attachments A-4 through A-9. These attachments show that the workforce, on average, is substantially similar to the rest of the Department. It does, however, differ to some extent in the following respects:

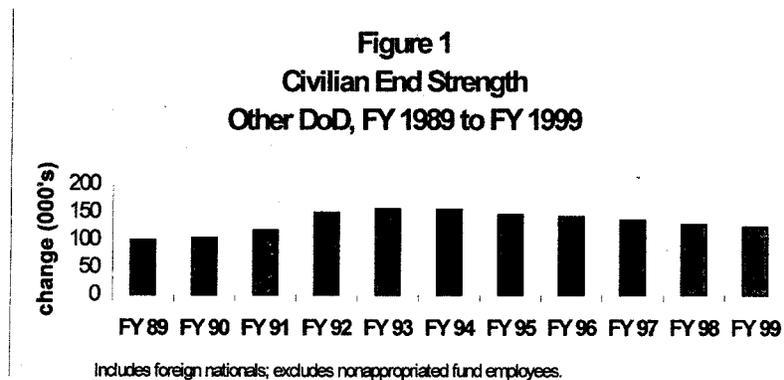
- ◆ It is overwhelmingly civilian. Almost 90% of 4th Estate employees are civilians.
- ◆ It is more heavily white collar. 86% of the 4th Estate's civilian workforce is employed in professional, administrative, technical, or other white collar positions. This compares with 76% for the Department as a whole.
- ◆ It is more heavily female. 54% of 4th Estate civilians are female, compared to a Department wide average of 38%.

These differences notwithstanding, organizations within the 4th Estate generally share the workforce conditions and workforce management issues described by Dr. Disney in her testimony. As with the rest of the Department, the development of civilian employees to assume key leadership responsibilities in the future is an especially high priority within the 4th Estate. The Defense Leadership and Management Program (DLAMP) is providing a highly effective and structured approach to meeting these needs. In addition, the Presidential Management Intern Program is used to select particularly talented students holding advanced degrees for a two-year program of rotational assignments and formal training opportunities aimed at developing well-rounded employees capable of assuming future managerial duties. Finally, the two-week SES APEX Orientation Program is conducted twice a year for newly appointed SES employees. The program is designed to increase an understanding of DoD structure and processes, and to foster a heightened sense of jointness among these new executives.

Past and Projected Strength Trends

The 4th Estate has been expanding in scope and size over the past three decades, reaching a peak of 155,000 civilian employees in FY 1993. This is due primarily to the establishment of new Defense Agencies and DoD Field Activities in the intervening years as the Department revamped the structure of its service and support organizations to improve quality and effectiveness of products and service delivery, and to achieve unity of effort, centralized oversight, and economies of scale. It is important to note, however, that this process did not generate growth in the DoD workforce. On the contrary, these organizations have been established by transferring functions and resources from the three Military Departments or other DoD Components. Usually, significant savings in personnel and other resources were realized in the consolidation process alone.

Despite the overall growth of the 4th Estate due to the establishment of new Defense Agencies and Field Activities through the years, civilian strength has declined annually since 1994, as shown in Figure 1. In addition, selected 4th Estate components have taken particularly steep reductions in recent years. For example, between 1987 and the end of FY 1999, the Defense Logistics Agency reduced its workforce by over 25,000 civilians; the Defense Commissary Agency eliminated 5,000 civilian positions between FY 1992 and the end of FY 1999; and from FY 1993 through FY 1999, the Defense Finance and Accounting Service reduced its workforce by 7,000 civilians.

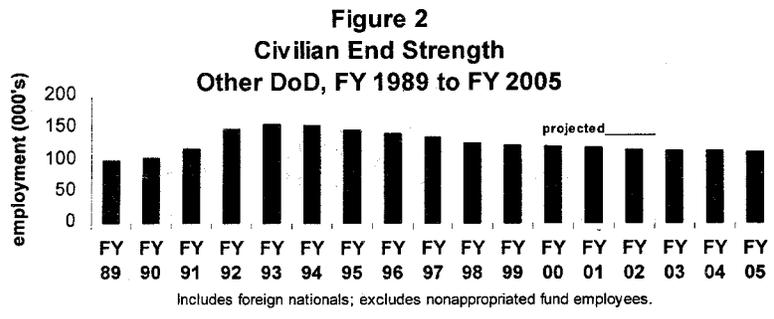


These reductions have been achieved as a result of BRAC and overseas closures, competitive outsourcing, reengineering business practices, organizational streamlining, and other management improvement actions. In addition, major organizational realignments have been

made to respond to changing national security requirements. Under Secretary Cohen's Defense Reform Initiative, for example, three 4th Estate organizations – The Defense Special Weapons Agency, the On-Site Inspections Agency, and the Defense Technical Security Administration – were merged into a single new component, the Defense Threat Reduction Agency, to consolidate the Department's ability to address growing nuclear proliferation problems and threats from weapons of mass destruction in the hands of terrorists or rogue nations.

As described by Dr. Disney, the Priority Placement Program, Voluntary Early Retirement Authority, Voluntary Separation Incentive Payment, and Voluntary Reduction-in-Force procedures have been used to cushion the impact of the dislocations in our civilian workforce.

Targeted drawdowns in the 4th Estate civilian workforce are expected to continue for the foreseeable future. Overall, a decline of 11% is programmed in the President's Budget through FY 2005, as shown in Figure 2. However, three 4th Estate components face significantly steeper cuts. The Defense Finance and Accounting Service is scheduled to eliminate 3,600 civilians, almost 18% of its civilian workforce. The Defense Logistics Agency is programmed to cut 9,000, more than 20% of its civilians. And, the American Forces Information Services is scheduled to take a 15% cut, a reduction of 82 civilians.



To face the challenges presented by the future with a declining workforce, the 4th Estate in general, and these organizations in particular, will need to apply all of the workforce management tools currently available to the Department. In addition, we will need your assistance to extend the Voluntary Reduction-in-Force Authority beyond September 30, 2001, and to expand the boundaries of the Voluntary Separation Incentive Payment and the Voluntary Early Retirement Authority to permit their use in redressing the workforce skill imbalances that have developed over time due to the emergence of new requirements, technological change, and the implementation of civilian reductions over an extended period of time.

As presently constructed, Title 5 U.S.C. does not provide the 4th Estate, or the rest of the Department for that matter, with the tools necessary to compete effectively in the marketplace for the educational and technical skills required by our workforce in the 21st Century. In this environment, the selective use of personnel practices based on departmental authorities embedded in Title 10 U.S.C. could be of considerable value. An example of this is the recent experimental authority provided by the Congress in the FY 99 Authorization Act, which allows the appointment of eminent engineers and scientists to up to 20 positions in the Defense Advanced Research Projects Agency, without regard to the typical recruitment and salary constraints contained in Title 5 U.S.C. In its first year of use, this experimental authority has allowed the Defense Advanced Research Projects Agency to compete for scarce talent essential to the success of its mission.

This concludes my remarks. I appreciate the opportunity to address the subcommittee on this issue and would be please to answer any questions you may have at this time.

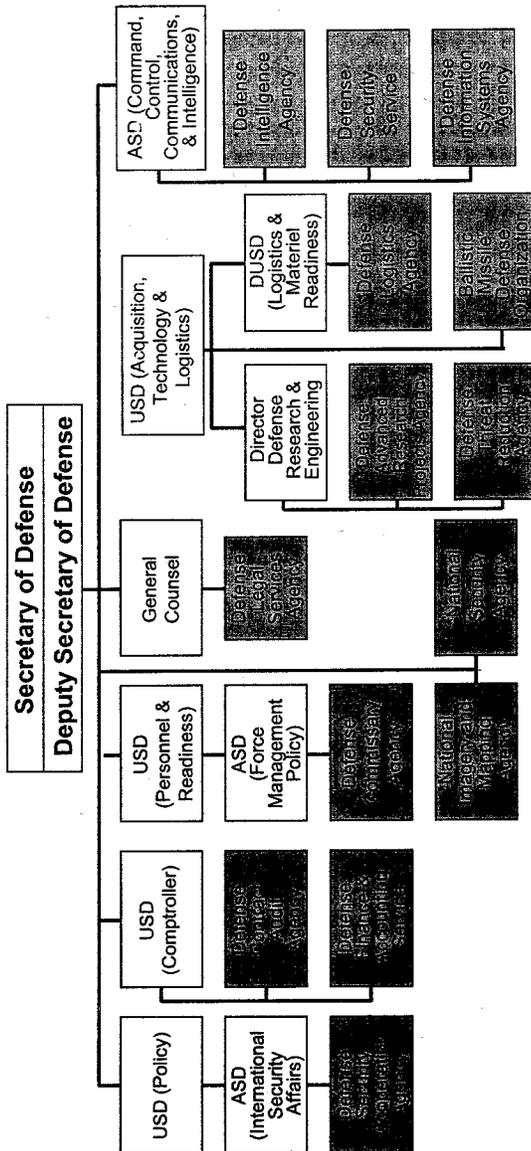
Attachment 1**Department of Defense
4th Estate Organizational Components**

	Year Established*
Departmental Headquarters	
Office of the Secretary of Defense	1947
Joint Staff	1947
Defense Agencies	
Ballistic Missile Defense Organization	1984
Defense Advanced Research Projects Agency	1958
Defense Commissary Agency	1990
Defense Contract Audit Agency	1965
Defense Finance & Accounting Service	1990
Defense Information Systems Agency	1960
Defense Intelligence Agency**	1961
Defense Legal Services Agency	1981
Defense Logistics Agency	1961
Defense Security Cooperation Agency	1971
Defense Security Service	1972
Defense Threat Reduction Agency	1998
National Imagery and Mapping Agency**	1996
National Security Agency/Central Security Service**	1952
Department of Defense Field Activities	
American Forces Information Service	1980
Defense Prisoner of War/Missing Personnel Office	1993
Department of Defense Education Activity (Includes DoDDS, established in 1978)	1992
Department of Defense Human Resources Activity (Includes CPMS, established in 1993)	1996
Office of Economic Adjustment	1978
TRICARE Management Activity	1998
Washington Headquarters Services	1977
Other Departmental Organizations	
National Reconnaissance Office	1964
Office of the DoD Inspector General	1983
Uniformed Services University of the Health Sciences	1974
US Court of Appeals for the Armed Services	1950

*In some instances, titles have changed since the organization was originally established, to reflect changing missions and functions

**Intelligence Activities

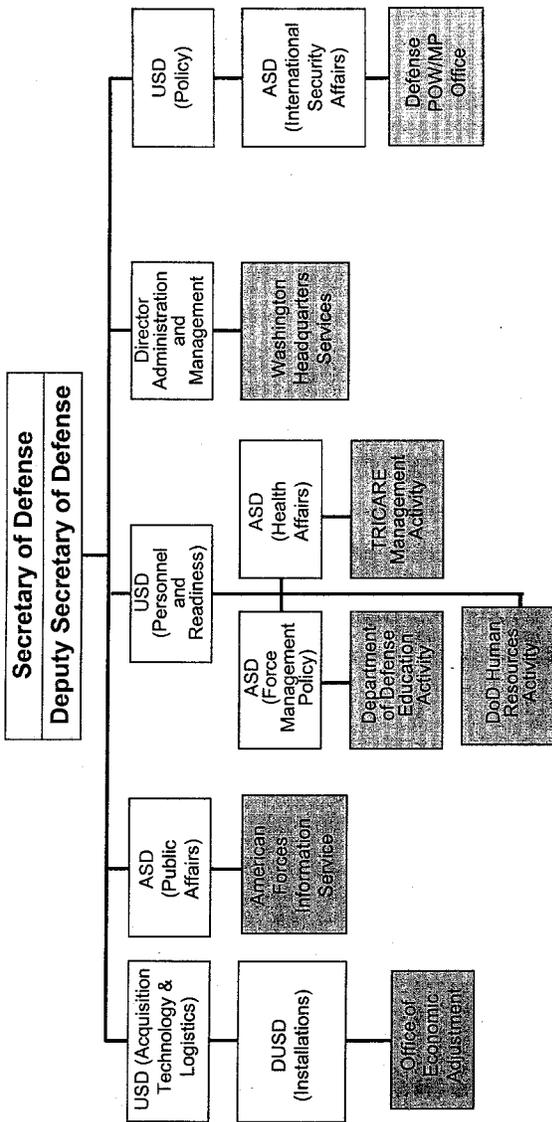
Attachment 2 Defense Agencies



* Combat Support Agency

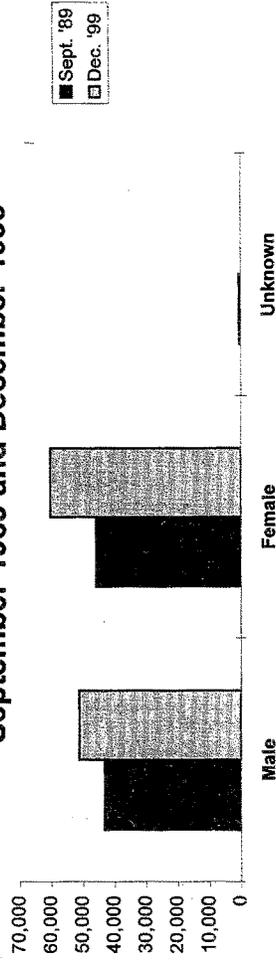
Date: February 2000

Attachment 3 DoD Field Activities



Date: February 2000

Attachment 4 Employment by Sex, Other DoD September 1989 and December 1999

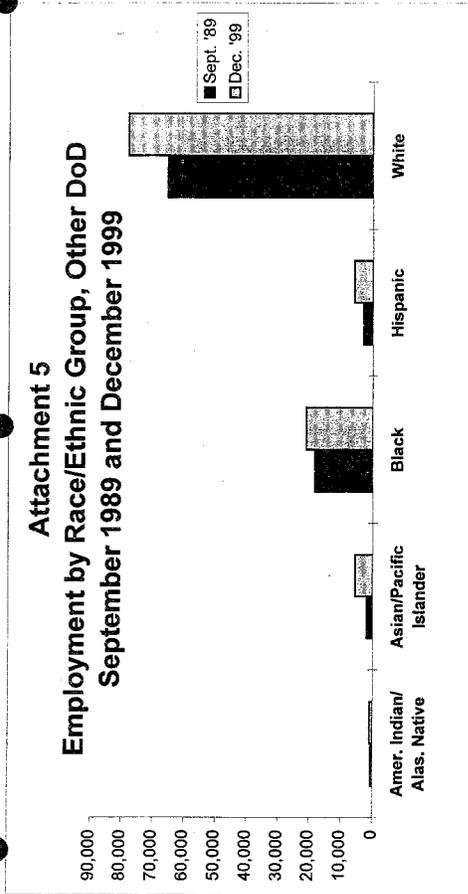


CIVILIAN EMPLOYEES* BY SEX

Category	Distribution		Difference	
	Sept. '89	Dec. '99	Number	Percent
Male	43,270	51,359	8,089	18.7%
Female	46,078	60,691	14,613	31.7%
Unknown	467	5	-462	-98.9%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

Attachment 5
Employment by Race/Ethnic Group, Other DoD
September 1989 and December 1999

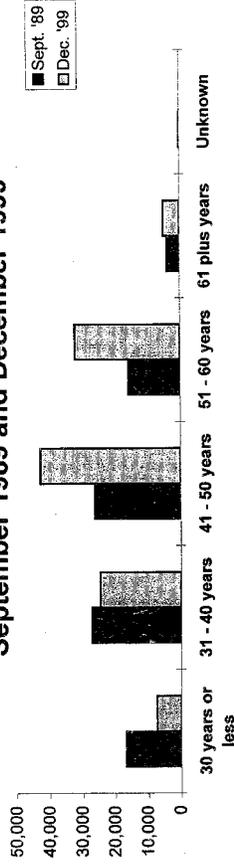


CIVILIAN EMPLOYEES* BY RACE/ETHNIC GROUP

Category	Distribution		Difference	
	Sept. '89	Dec. '99	Number	Percent
Amer. Indian/ Alas. Native	584	882	298	51.0%
Asian/Pacific Islander	1,979	5,603	3,624	183.1%
Black	18,401	21,260	2,859	15.5%
Hispanic	3,107	5,953	2,846	91.6%
White	65,744	78,357	12,613	19.2%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

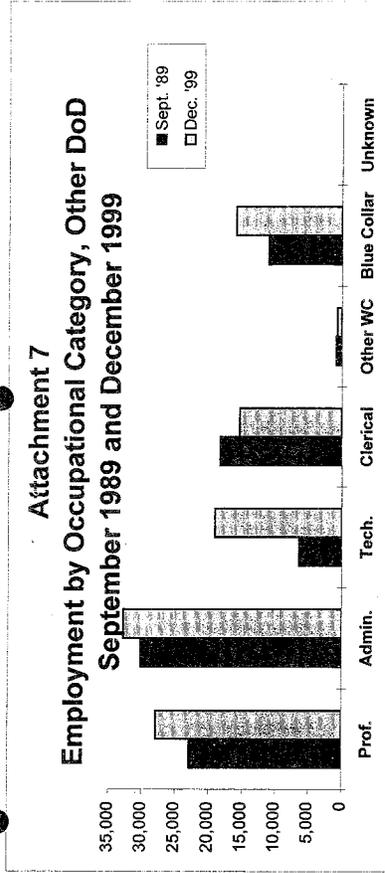
Attachment 6 Employment by Age, Other DoD September 1989 and December 1999



CIVILIAN EMPLOYEES* BY AGE

Category	Distribution		Difference	
	Sept. '89	Dec. '99	Number	Percent
30 years or less	16,798	7,426	-9,372	-55.8%
31 - 40 years	27,118	24,627	-2,491	-9.2%
41 - 50 years	26,207	42,881	16,674	63.6%
51 - 60 years	15,740	32,107	16,367	104.0%
61 plus years	3,925	5,004	1,079	27.5%
Unknown	27	10	-17	-63.0%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

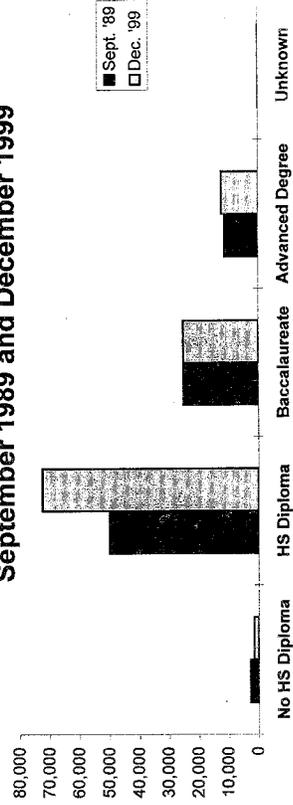


CIVILIAN EMPLOYEES* BY PATCO CATEGORY

Category	Distribution		Difference	
	Sept. '89	Dec. '99	Number	Percent
Professional	22,878	27,912	5,034	22.0%
Administrative	30,261	32,878	2,617	8.6%
Technical	6,381	19,094	12,713	199.2%
Clerical	18,320	15,431	-2,889	-15.8%
Other White Collar	879	748	-131	-14.9%
Wh Col Subtotal	78,719	96,063	17,344	22.0%
Blue Collar	11,092	15,992	4,900	44.2%
Unknown	4	0	-4	-100.0%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

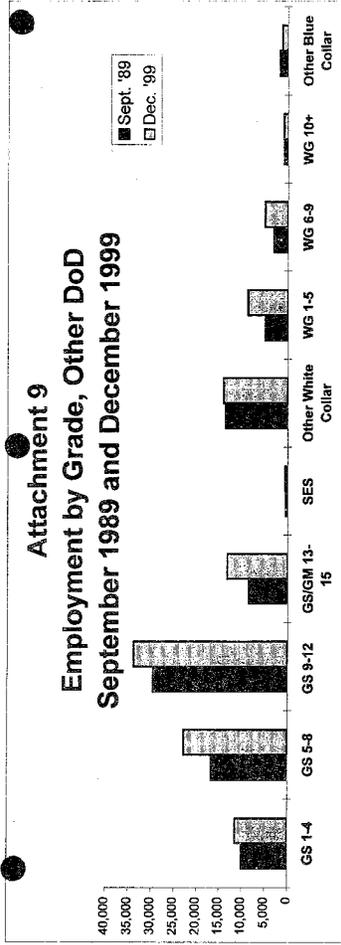
Attachment 8
Employment by Level of Education at Entry into
Workforce, Other DoD
September 1989 and December 1999



CIVILIAN EMPLOYEES* BY LEVEL OF EDUCATION AT ENTRY

Category	Distribution		Difference	Percent
	Sept. '89	Dec. '99		
No HS Diploma	2,916	1,627	-1,289	-44.2%
HS Diploma	50,228	25,296	-24,932	-49.6%
Baccalaureate	25,263	72,647	47,384	187.5%
Advanced Degree	11,367	12,415	1,048	9.2%
Unknown	41	70	29	70.7%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.



CIVILIAN EMPLOYEES* BY GRADE

Category	Distribution		Difference	Percent
	Sept. '89	Dec. '99		
GS 1 - 4	10,012	11,478	1,466	14.6%
GS 5 - 8	16,797	22,806	6,009	35.8%
GS 9 - 12	29,594	33,858	4,264	14.4%
GS/GM 13 - 18	8,553	13,276	4,723	55.2%
SES	413	504	91	22.0%
Other White Collar	13,702	14,141	439	3.2%
Wh Col Subtotal	79,071	96,063	16,992	21.5%
WG 1 - 5	4,978	8,832	3,854	77.4%
WG 6 - 9	3,108	5,027	1,919	61.7%
WG 10+	862	908	46	5.3%
Other Blue Collar	1,796	1,225	-571	-31.8%
Bl Col Subtotal	10,744	15,992	5,248	48.8%
Total	89,815	112,055	22,240	24.8%

*Data refer only to US citizen employees paid from appropriated funds. Excludes intelligence agencies.

**QUESTIONS AND ANSWERS SUBMITTED FOR THE
RECORD**

MARCH 9, 2000

QUESTIONS SUBMITTED BY MR. BATEMAN

Mr. BATEMAN. In your research, are you finding evidence of a general shortage of technical workers in the U.S.? Wouldn't it make sense for the Department of Defense to contract for these workers as needed, rather than . . . maintaining a large permanent staff?

Mr. CIPOLLA. There is currently a shortage of technical workers in many areas and it will get worse. The labor force is expected to grow by only 11% from 1996 to 2006, at the same time that demand increases by 19%. According to Watson Wyatt Worldwide, an increased demand for labor combined with the decline in the number of workers ages 24 to 45 will create a 30% shortfall of workers in this group over the next decade.

Many of the 20 million new jobs that will be created in the next five years will be hard to fill due to a shortage of workers with analytical and technical skills. The federal government will be affected more than other sectors of the economy since knowledge workers account for a higher proportion of its workforce. According to the federal Chief Information Officers Council, from now until 2006, there will be a need to hire 4,600 workers to fill new IT jobs and 32,315 more to replace workers lost by attrition.

Much of the demand for technical workers in federal agencies can be met by contracting. However, several important factors must be taken into account if contracting is to be a viable alternative. First is the determination whether the work to be done is inherently governmental as indicated by A-76 and FAIR Act reviews.

If the work is not inherently governmental and it is determined to seek competitive sourcing, the challenge for agencies is to ensure that the private contractor selected has the capability required. Private companies are in the same "war for talent" as the federal government and may have difficulty hiring and retaining the required expertise in some areas. Companies may have to pay more for scarce talent, potentially increasing the cost of contracting work requiring high tech skills.

Finally, decisions about whether to use contractors should be made on a case by case basis. Key considerations include contractor expertise, evaluation of the quality of work done previously, and what process must be used to hire a contractor. There are clear benefits to be derived from the competitive sourcing process itself such as formal work statements and performance criteria. However, there are also intangible factors which should be considered—the effect on morale, career opportunities, and mission identity for the existing workforce.

Mr. BATEMAN. Is there an example of a firm or better yet, a government agency which is adept at workforce shaping? What model should DOD emulate?

Mr. CIPOLLA. One of the best examples of successful workforce shaping is offered by the National Imagery and Mapping Agency (NIMA). The NIMA, formerly known as the Defense Mapping Agency, has a history of good workload planning and good strategic planning overall. In the late 1980's, NIMA's annual customer surveys showed that projected workloads during the next five years would be increasing. At the same time, NIMA was in the process of automating the map-making process to achieve cost savings. Since it couldn't afford to modernize all its production facilities, NIMA decided to close several of them. Another consequence of automation was that many of the skills possessed by the workforce became obsolete.

In response to these developments, NIMA implemented a proactive workforce shaping program. Employees received extensive retraining in the technical areas needed to support the new technology. Targeted buyouts were offered to occupations or groups of jobs that would no longer be needed. All employees in the facilities to be closed were offered a similar job in another facility. As a result of adopting these policies, NIMA was able to keep the number of reductions-in-force to a minimum.

The NIMA experience illustrates how workforce shaping can be used to improve an agency's ability to achieve its mission, while treating employees fairly and protecting their rights.

Mr. BROSTEK. As we said in our statement before the Subcommittee, federal agencies—DOD included—can and must define the kind of workforce they will need in the coming years, develop plans for creating that workforce, and follow up with actions and investments needed so that when the future arrives, the right employ-

ees—with the right skills, training, tools, structures, and performance incentives—will be on hand to meet it.¹ We noted that during downsizing, DOD’s approach to civilian force reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing. We also noted that during our work on the early phases of DOD downsizing, some DOD officials voiced concerns about what was perceived to be a lack of attention to identifying and maintaining a balanced basic level of skills needed to maintain in-house capabilities as part of the defense industrial base.²

Our work has not focused on identifying agencies that could be construed as models or provide “best practices” for workforce shaping, and so we cannot point to a specific organization that DOD should emulate. However, our recent report on human capital approaches at nine leading private-sector organizations underscored the importance these organizations place on strategic human capital management as fundamental to strategic business management.³ The ten human capital principles we drew from these organizations included several that are relevant to workforce shaping, including the need to identify the competencies needed to achieve high performance of missions and goals and to build and sustain the organization’s talent pool through appropriate recruiting, hiring, development, and retention policies.

Our testimony before the Subcommittee stressed the importance, not just for DOD, but for all federal departments and agencies, of taking a strategic approach to human capital management. We currently have work under way on the extent to which federal agencies have pursued workforce planning, and can say that while most of the agencies we have examined recognize the importance of workforce planning, their efforts are generally fairly recent and vary considerably. Our work at the Environmental Protection Agency, the Social Security Administration, and the National Aeronautics and Space Administration reflects some of the variation we have found among agencies’ workforce planning efforts and some of the concerns we have identified.⁴

As we noted in our testimony before the Subcommittee, we have developed a five-part self-assessment framework we believe can be useful in assessing and better aligning federal agencies’ human capital management systems with their missions, goals, and other needs and circumstances.⁵ As agencies make progress in taking a more strategic and businesslike approach to their human capital management, we will be pleased to share with you any agency experiences we encounter that may serve to inform DOD’s human capital efforts and your oversight of DOD civilian workforce readiness.

Secretary DISNEY and Mr. COOKE. To pursue topics of special interest, we conduct or commission targeted studies, such as RAND Corporation’s rigorous examination of changing occupational requirements. Preliminary findings from that research indicate that DOD must cope with the following broad themes in the future:

- Employees with an enhanced service orientation;
- Greater emphasis on the need for workers to stay current with emerging technologies;
- Increased need for advanced technical skills; and
- The need for better problem-solving skills among all workers.

In addition, the Department gathers workforce shaping data from special forums (as the one on technology leadership) and analytic projects (such as that on the future acquisition workforce). These are supplemented by studies conducted by the National Academy for Public Administration and other research organizations.

In general, our workforce appears well matched with the functions that must be performed to support military missions around the world. However, changes in mission and in technology inevitably alter our requirements for civilian personnel and

¹*Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management* (GAO/T-GGD/NSIAD-120, Mar. 9, 2000).

²*Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed* (GAO/T-NSIAD-92-19, Mar. 18, 1992) and *Defense Force Management: Challenges Facing DOD as It Continues to Downsize Its Civilian Work Force* (GAO/NSIAD-93-123, Feb. 12, 1993).

³*Human Capital: Key Principles From Nine Private Sector Organizations* (GAO/GGD-00-28, Jan. 31, 2000).

⁴*Human Capital: Observations on EPA’s Efforts to Implement a Workforce Planning Strategy* (GAO/T-RCED-00-129, Mar. 23, 2000); *SSA Customer Service: Broad Service Delivery Plan Needed to Address Future Challenges* (GAO/T-HEHS/AIMD-00-75, Feb. 10, 2000); and *Space Shuttle: Human Capital Challenges Require Management Attention* (GAO/T-NSIAD-00-133, Mar. 22, 2000).

⁵*Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/GGD-99-179, Sept. 1999).

create spot surpluses in some occupations at some sites. Looking across all occupations, we are concerned that the civilian drawdown has left us too few of the younger workers needed to maintain the vitality of the workforce and to ensure an orderly transition of leadership as our older workers retire. Therefore, we appreciate the help received from Congress in providing tools that allow us to manage and shape our workforce to meet today's demands without resorting to costly and disruptive reductions in force.

Secretary SNYDER. Army has a mechanism in place to examine its civilian work force requirements to support the total force out to its farthest planning horizon, currently about 2020. This initiative is called Civilian Personnel Management System XXI (CPMS XXI). CPMS XXI begins with an examination of future needs in terms of skills, experience, type of employee (e.g., permanent, temporary and contractor) and, where possible, numbers of employees.

A strategic planning process is in place which guides users through steps beginning with mission and vision, into an environmental scan of the future world based on assumptions about the future gathered from other planning documents, eventually reaching a set of actions to move us to the desired future state. The functional managers of the 22 Army career programs, which comprise the majority of our workforce in professional, administrative, and technical occupations, are completing their first strategic plans. We are going to post the best plans on the internet to aid others.

Prior to beginning their strategic planning, functional representatives examined the work force trends for their respective career programs in order to understand how the programs and policies of the past have shaped the force. Metrics examined included age, years of service, gender, race and national origin, education level, grade and retirement eligibility. We looked at overall strength, accessions and losses. While the numbers varied considerably by skill, a few trends were universal. Principal among these was aging—a direct result of the strategy of accomplishing downsizing through a combination of natural and assisted attrition and reduced hiring. Aging, however, is only a symptom. The underlying problem is the growing number of retirement-eligible employees with limited in-house replacements.

Another issue that surfaced during this process is the degree to which we must compete for skills with the private sector. In many cases, government does not provide a competitive salary; in others, the government wage structure restricts upward mobility in ways the private sector does not.

Other initiatives affecting the workforce complicate CPMS XXI analyses. The Quadrennial Defense Review directed further downsizing. The Defense Reform Initiative Directive 20 (DRID 20) and the Federal Activities Inventory Reform (FAIR) Act designate functions for review for possible contracting out. Functional Area Assessments (FAA) have suggested military positions in the institutional Army that can be moved to the warfighting Army. While all of these are fine initiatives, they must be managed carefully to avoid breaking the civilian force in terms of continuity of capabilities to meet future missions.

Concurrent with these analyses, Army is taking steps to assure the results are included in the Army's formal planning processes. We are examining the occupational relationships between the warfighting Army and the supporting civilian workforce. These correlations resemble the allocation rules familiar to the analysts who build the warfighting force.

Secretary WELCH. In 1998, the Department of the Navy began looking across our total workforce to assess future competency and skill requirements. A Workforce Planning Group was created and career field sponsors identified who would analyze current capabilities, define future requirements, and identify plans and strategies for acquiring, developing, maintaining, and leveraging the Department's future workforce.

The Workforce Planning Group's efforts have been absorbed into a more broadly drawn corporate workforce planning initiative. Under the precepts of the Revolution in Business Affairs, the DON has established a flag-level group of military and civilian executives who are looking at baseline data and establishing methodologies to determine the total force requirements in the DON over the next several years.

Secretary KEENER. We have developed workforce policy assessment models to help us analyze the probable effects of changes in our force management practices. These projection models allow us to age the workforce under a variety of assumptions (such as different levels of grade, experience, and sources of hiring; varied retention rates; or diverse end strength projections) to see how the long-term shape of the force will react. Our career field managers use these tools to determine their desired force renewal and development programs. Our corporate succession planning efforts sit on a firm analytical foundation, and we apply these types of analytical tools to all aspects of human capital needs assessments.

Headquarters, Air Force Materiel Command (AFMC), the largest employer of civilians in the Air Force, recently concluded a two-year study to identify the workforce they need to meet their missions in the future. They are responsible for designing, developing, acquiring, and maintaining today's (and tomorrow's) weapon systems and platforms. AFMC's "2005 Force Shaping Study" decomposed the Command into Business Areas, Centers, and Functional Areas and incorporated senior leadership's direction to identify the workforce skills, skill levels, and demographics desired and needed to meet their missions. Skills mix considered developmental, journeyman, and managerial positions and they also considered alternative component mixes, i.e. organic full-time in-house, versus contract support, versus contingent employees. This was a very broad and complex effort, and we expect the results will be used to optimize of force management policies and programs to best obtain and sustain a skilled and proficient workforce.

Our workforce assessment shows workforce imbalances characterized into two areas: experience imbalances and skills imbalances. By experience imbalances, we refer to the situation we see across the service today where we have a solid group of mid- and senior-level employees with a great deal of knowledge and experience, but an inadequate pool of developmental trainees coming through the pipeline. Today's trainees are tomorrow's journeymen and managers. Without the proper mix of experience levels, we anticipate force management challenges in the future as today's incumbents begin to retire. While their retirements may give us increasing opportunities to refresh the workforce, they also mean loss of a great deal of institutional knowledge. Our best case scenario would be significant intake of developmental trainees now, while we still retain our experienced employees who can train and mentor the new folks. This intake would have to take the form of end strength growth, else we are faced with the dilemma where we have a group of new hires with no one around to mentor them.

We also project skills imbalances—i.e., if we were to remove our hands from the force management controls, we would expect to have "too many" of one specialty and not enough of another. This situation will be addressed through restructuring, targeted hiring, and some re-skilling. This is one area where a voluntary force shaping incentive program, without linkage to end strength reductions and RIF, would help. The significant negative aspects of RIF-driven organizational restructuring would thereby be avoided, and allow us to develop a smoother transition to skills rebalancing. Authority to offer degree-granting educational opportunities to our civilian workforce would also help us meet our strategic vision of the future workforce.

Mr. BATEMAN. What specific plans does DOD have in place or are expected to be put into place to mitigate the imbalances? What challenges and obstacles do you face in being able to deal with the aging workforce issue and any related workforce imbalances?

Secretary DISNEY and Mr. COOKE. DOD has a number of strategies to mitigate current and anticipated workforce imbalances. The first is the reshaping of the workforce to ensure that we have the right skills match and more balanced age cohorts. The current Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) enable us to offer these incentives to persons in positions that are no longer needed at specific locations, as well as to those eligible for retirement but needing encouragement to leave so that we can retain newly hired employees. However, the current authority may be used only in conjunction with reduction in force. Legislative relief could permit us to target those areas where we have skills that are surplus or no longer needed. Offering VERA/VSIP to those employees would permit us to use the resulting attrition to hire individuals with the needed skills.

We are encouraging the Defense Components to renew the workforce by hiring interns to bring new capabilities and skills. With the added emphasis on interns, we hope to reverse the trend that has resulted in a 76 percent decrease since 1989 in DOD employees who are under 31 years of age. Simultaneously we want to provide more comprehensive career paths so those talented individuals remain in the workforce. In addition, we have developed the Defense Leadership and Management Program (DLAMP) to enhance our current civilian workforce and help ensure that we have the right people with the right skills in our demanding jobs.

Among the challenges we face in our efforts to renew the workforce are the difficulty of attracting top talent due to negative perceptions of government employment; a robust private job market that is actively recruiting; competition from other Federal Agencies with more flexible compensation plans; and the severe, continuing downsizing, which has drained the capability of many organizations to absorb untrained people and still perform their mission.

Secretary SNYDER. Under CPMS XXI, Army is continually reviewing programs and policies to balance the force. We recognize that differing parts of the force (in

terms of mission role and occupational groupings) can be expected to behave in different ways over Army's planning horizon. Our intention is to identify a Civilian Objective Force (COF) that gives us enough information as to grade, skill, and geographic location to recruit and sustain the most effective workforce. As I stated in my previous answer, the analyses necessary to identify the COF are complicated by other on-going initiatives that will affect future Army civilian workforce requirements.

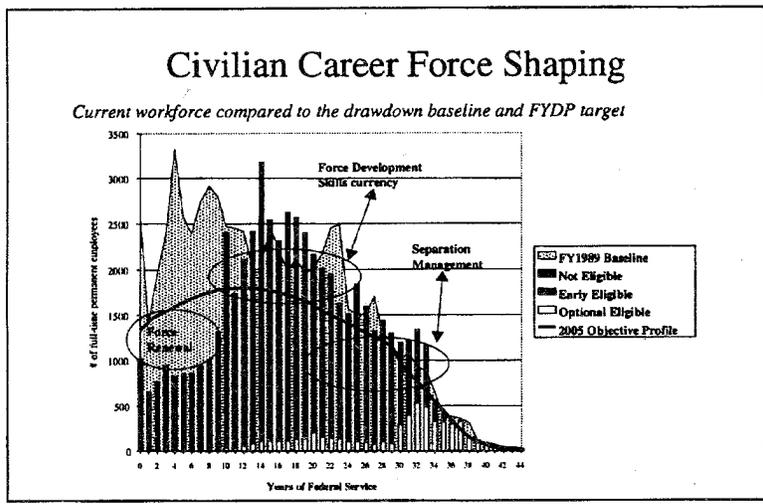
Secretary WELCH. The DON is pursuing a variety of approaches to reinvigorate our recruitment and development programs with the goal of replenishing the supply of employees in the pipeline. We are establishing a coordinated recruitment program through which we will train and support a cadre of recruiters who will represent the Department at job and career fairs and conduct college recruitment at campuses across the country.

Beyond this identification of a need to rebuild the entry and mid-level workforce, it would be premature for the DON to develop specific strategies to deal with and respond to specific workforce imbalances while our review of the workforce is incomplete. In general, we view the aging of our workforce to be reflective of the age distribution in the population as a whole, and therefore to be expected in the workplace.

Secretary KEENER. The Air Force has an approved workforce shaping strategy. The three key elements include force renewal, force development (education and training), and separation management. New accession strategies, such as greater investment in interns and other developmental trainees, will provide stability to our long-term sustainment efforts. A collaborative process is underway to determine the proper size of our force renewal programs. Also, changing local hiring practices will accelerate workforce re-balancing. Skills currency, particularly in our highly technical occupations, demands attention. Skills proficiency is being emphasized through professional continuing education, training, and retraining programs. Leadership development programs will ensure a cadre of senior executives with the breath of experience and Air Force culture needed to achieve corporate goals.

The Air Force civilian workforce is out of balance due to the way we reduced our civilian workforce. Reductions in the civilian workforce were achieved through a combination of loss programs and constrained accessions. Loss programs included early retirements (Voluntary Early Retirement Authority or VERA) and incentives (Voluntary Separation Incentive Program or VSIP) to trim the more senior year groups and to minimize involuntary actions (Reduction In Force or RIF) which are so devastating to our force, both organizationally and individually.

We limited the number of new hires, or constrained accessions, as the overall force has reduced over the last ten years. This has led to problems in sustaining the force of tomorrow. We will not have enough mid-level managers and administrators in the future from which to select tomorrow's Senior Executives.



This chart shows a future problem in sustaining the civilian force and a serious future gap in Air Force civilian leadership. The chart compares the 1989 baseline population (dotted area in the background) with our objective profiles for FY05 (the solid line). The retirement status is depicted in the stovepipes. When considering the drawdown we currently have planned in the Future Years Defense Program (FYDP), we show a deficit of employees in the lower years of service (YOS), what we refer to as a “bathtub.” There is also a surplus in the more senior groups, our long-term sustainment requirements.

The mid-career population with 8 to 24 YOS is well above the line. While most are not eligible for any retirement, those that are (approximately 30%) may be induced to accept an “early” retirement (VERA) with an incentive payment (VSIP) payment of up to \$25,000. Any losses generated from this group would be used not to reduce the end strength, but will be redistributed to the more junior workforce, one with lower average YOS and pay steps. Additionally, we plan to provide professional continuing education to get and keep the workforce current and proficient in whatever skill set needed to perform their occupation.

Mr. BATEMAN. Your legislative proposals include at least three authorities to hire scientific and engineering personnel and three authorities to provide college degree training. To what degree are these proposals integrated into your overall plan for staffing future DOD organizations?

Secretary DISNEY and Mr. COOKE. Many of the positions DOD requires in the science and engineering fields are also required by the private sector. Given the greater compensation and benefits flexibility outside the Federal Government, this competition creates special problems, as DOD is committed to revitalizing its laboratory and acquisition communities. Further, in DOD as a whole, advanced technology, contract oversight, and a more complex mission have generated the need for more advanced education and technical skills.

Our ability to compete with private industry benefit packages would be enhanced if DOD could more broadly offer academic degree training to our current and future workforce. Most high-technology firms consider education to be a business-essential benefit. We need to level the playing field, as well as to support continuous learning programs.

Because higher-level DOD positions are filled overwhelmingly by people who have spent some time within the Department, it is essential that DOD invest in its civilian cadre. Also, the Defense Science Board’s Task Force on Human Resource Strategy has recommended that DOD expand efforts to recruit and develop interns on specific occupational tracks and at higher levels (Presidential Management Interns). In addition, the Defense Science Board recommended creation of an early leader development program, which we are pursuing. In brief, then the proposals mentioned in the question are vital to meeting our future staffing needs.

Secretary SNYDER. We believe that legislative proposals that would change aspects of our civilian personnel system ought to be the product of a fully coordinated and integrated approach.

Secretary WELCH. The legislative proposals for recruiting and hiring scientific and engineering personnel and the degree training initiative are integral to the DON’s future staffing plans. We are building the groundwork of a recruiting program which will rely heavily on increased appointment and rating/ranking flexibilities.

Secretary KEENER. The legislative proposals to hire scientific and engineering personnel would provide the flexibility to continually refresh the technical skills of the research and development workforce. In the ideal, the research and development function would be comprised of a core of civil servants to provide continuity coupled with collaborators—consisting of military officers, temporary and term government employees, academia, and industry—for agility and fresh ideas. We need to be able to tap private companies and academia for eminent scientists and engineers and be competitive in pay and benefits. Collaborators from academia and the private sector would work projects for up to six years. Legislation similar to the Defense Research Projects Agency (DARPA) authority (FY99 National Defense Authorization Act, Section 1101) and the proposed Commercial Personnel Transfer Program (DOD 106–014) would enable the Air Force to achieve this staffing model.

With regard to college degree training, under current law, agencies must prove that an occupation is in shortage as a result of recruitment or retention problems before degrees can be funded. This law severely limits our ability to offer professional development to employees who demonstrate the potential for future advancement. By linking the investment in education to a deliberate program of employee development, we can better shape our staffing needs for the future.

Mr. BATEMAN. To a large degree, agencies chafe under civil service procedures that are designed to enforce hiring on the basis of merit. All too often, those proce-

dures take time. In your experience do you lose employees to the private sector because of this delay? What skills are those you are most likely to lose?

Secretary DISNEY and Mr. COOKE. We do not have data on how many people we lose due to the lengthy hiring process, nor do we have data available on the number and types of people who decline job offers. However, in some cases where timely offers are critical (recent college graduates, unemployed personnel, shortage occupations), we know that we lose applicants to faster bidders. Feedback from managers in this issue is strongly supported by a recent report published by the Merit Systems Protection Board.

Secretary SNYDER. It is true that many applicants become discouraged or lose interest when faced with the federal hiring process. This is particularly true of applicants for entry level positions—typically recent college graduates who are pursuing a variety of career options. For example, a vacancy announcement soliciting applicants for an entry level career intern position may be open for 30 days. The most aggressive and highest quality candidates are actively “surfing the web” for employment opportunities and usually apply within a few days of the opening date of the announcement. By the time the announcement closes and applicants are rated and referred for consideration, the early applicants already may have accepted job offers from other employers.

The skills that we are most likely to lose because of procedural delays are those skills most in demand in the private sector—information technology, engineering, scientific, and medical. It is precisely because applicants with these skills are in such demand that their loss due to procedural delays causes us so much damage. We believe the Federal Government needs a modernized, streamlined hiring system that enables us to compete with private industry for the best candidates while maintaining merit principles.

Secretary WELCH. The DON fully supports adherence to merit principles and has not found the broad concept of merit to be an unnecessary or dominant constraint to hiring. And while we have no specific data on whether or how many potential hires we lose to the private sector, we continue to receive reports from our field activities and commands that the inability to make immediate job offers and the lack of competitive starting salaries causes us to lose a number of our first-choice candidates to the private sector. For this reason we strongly support DOD legislative and regulatory initiatives aimed at improving the hiring process to alleviate some of the more protracted procedures currently being used.

Secretary KEENER. Hiring in the Federal Government on the basis of merit is a statutory requirement under civil service law (5 U.S.C. 2301(b)). It is hard to find fault with principles that require the selection of employees on the basis of merit after fair and open competition and the equitable treatment of applicants without discrimination. However, it is true that the civil service regulatory procedures that implement these principles can complicate and lengthen the hiring process. Good candidates, especially in the scientific and technical fields, can be lost to the private sector because of their ability to respond more quickly.

Due to the extremely tight labor market, we expect to continue experiencing recruiting difficulties for scientific and technical personnel (e.g., scientists, engineers, information technology, and acquisition). Private-sector high technology firms can make a promising graduate an offer and even a counteroffer on the same day. Due to the Federal public notice; requirements, rating and ranking procedures, and application of veterans’ preference, it is difficult for DOD recruiters to be as responsive. As a fix, DOD continues to work with the Office of Personnel Management and other Federal agencies to seek ways to simplify the processes that will allow us to become more competitive with the private sector. The Office of Personnel Management delegation of examining authority to the executive agencies has streamlined the hiring process and improved our ability to quickly respond to applicants. Additionally, the DOD demonstration projects have a number of streamlining procedures, to include category ranking and scholastic achievement appointments, which are being tested for possible future government-wide adoption. We are also optimistic that the recently proposed Executive Order for the Federal Career Intern Program will increase our ability to compete with private industry for recent college graduates. We will continue to push for legislative change, as appropriate, to further streamline the Federal hiring process but still comply with merit systems principles and veterans’ preference law.

Mr. BATEMAN. Isn’t there some danger in tossing out merit principles and allowing managers relatively unfettered authority to hire? Couldn’t we be accused of allowing managers to bypass well-established merit principles? In your experience, does new flexibility lead to some tension with merit principles?

Secretary DISNEY and Mr. COOKE. DOD strongly supports the merit principles. Our effort to streamline the hiring process in no way represents a degradation of

merit system principles. Instead, our initiatives reflect the new hiring patterns emerging in a vastly different job market and society. Selection should reflect consideration of merit principles, resulting in hiring the best person for any given position and reflecting the diversity inherent in American society. What we are proposing is a re-evaluation of the policies, procedures, and processes that surround the implementation of the merit principles.

Our belief is that the complexity of Federal processes and procedures often complicates the selection of the best and brightest. We believe we can support and maintain merit principles, while making hiring less cumbersome and time consuming.

Secretary SNYDER. The Army strongly supports the merit system principles set forth in title 5, United States Code, Chapter 23 and we propose no changes to them. We are, however, concerned about some strictures of law that often prevent us from hiring the best available candidates. The "rule of three" limits selecting officials' choices to the top three candidates on a certificate of eligibles when we use examining procedures that allow us to accept applications from outside the workforce. In its August 1999 report "The Role of Delegated Examining Units: Hiring New Employees in a Decentralized Civil Service," the Merit Systems Protection Board—MSPB—recommended that the rule of three be modified to allow managers to consider a greater number of qualified candidates. We strongly support the MSPB recommendation and believe that its implementation would strengthen, rather than weaken, the merit principles.

The Army doesn't believe it is necessary to jettison merit principles in order to modernize and streamline hiring processes. We need to take a fresh look at what we really mean by "merit." Selections based on real merit do not result from, and cannot be equated to, adherence to all the bureaucratic procedures we must comply with under today's "merit system." It's time to throw away the old system, one that has become an impediment to accomplishing the agency's mission, and replace it with a mechanism that allows agencies to compete effectively with the private sector for the best and brightest candidates.

The Army has pursued a number of civil service reform initiatives in prior years to simplify and streamline hiring processes. Our most recent initiative involves decreasing the number of appointment authorities and allowing non-competitive conversion of temporary and term employees to permanent status, reassignment of qualified employees from excepted to competitive service without competition, and similar actions. I forwarded this initiative to OSD in August 1999 with a recommendation that we continue to pursue broad legislative reform of appointment authorities. Again, we believe that these reforms will not weaken existing merit principles.

Secretary WELCH. The DON sees no conflict or tension in allowing agency managers to exercise judgment and to apply flexibilities aimed at making the hiring process more responsive. The DON Human Resources Management community ensures that managers are aware of the merit principles and their obligation to observe these principles in the hiring and promotion processes. The goal of a merit-based system is to ensure that the best-qualified candidates are hired and promoted. The goal of the proposed flexibilities is to ensure that the best-qualified candidates are hired and promoted more efficiently.

Secretary KEENER. We believe merit systems principles are fundamental to Federal employment. As Federal employers, we must provide our country's citizens an employment system that provides fair and open competition and equitable treatment without discrimination. However, in a tight labor market, it is true these requirements can impact our ability to effectively compete with private industry, especially for scientific and technical personnel. We believe there are means available in the current system to shorten the employment pipeline in order to make us more competitive. Demonstration project procedures are being tested to further streamline the hiring process and still satisfy merit systems principles. As long as the minimum public notice requirements are met, best-qualified candidates are identified, and veterans' preference applied, the basic merit systems principles are satisfied. We have not advocated any new flexibility that would eliminate these basic requirements. Consequently, we are not aware of any proposed flexibility that will create tension with the basic merit principles.

Mr. BATEMAN. The Merit Systems Protection Board recently reported (*Competing for Federal Jobs: Job Search Experiences of New Hires*, Feb. 2000) that the average age of new hires government wide was about 35 in 1998. MSPB said this average age held steady across most occupational categories. Is this similar to the average age of new hires in DOD? If so, please explain why the average age is 35. Also, do you see mid-thirties as a desirable age for employees?

Secretary DISNEY and Mr. COOKE. Across DOD in FY 1999, the average age of new employees hired with permanent appointments was 36.5 years, somewhat less than in FY 1998 but more than the 34.2 year average in FY 1989. The hiring of former military members, who often have unique skills and experience, accounts in part for the average age of DOD's new permanent employees being in the mid-30's. Ultimately, it is the nature of the jobs to be filled that determines the educational and experience requirements, and in some instances these can be correlated with age. However, DOD does not regard any age as automatically appropriate for all jobs. The paramount consideration is matching education, experience, and talent with requirements.

Secretary SNYDER. To preclude any misunderstanding, let me make it clear that we don't see quality as a function of age. The important thing is to hire talented people, regardless of how old they are. The average age of accessions into the Army in FY99 was 33, somewhat lower than the average 35 years of age reported Federal-wide by MSPB. In many instances we find that the Army is not the employer of choice, given our limited incentives to attract younger applicants. Private industry typically offers higher salaries and extended benefits packages for entry level jobs in occupations that are highly competitive in the labor market. In some fields within Army, the nature of the work is changing with the move toward contracting out government functions to private industry. The jobs remaining in the government are becoming more concerned with contractor oversight, requiring more advanced qualifications and extended experience not found with younger applicants. In this instance, the contractors are more inclined to hire younger, entry level employees in many of the contracted out jobs while the Army hires more experienced employees to oversee the contract. We plan to continue our efforts to develop attractive entry level employment packages to entice younger applicants, but must also balance that with the need for more experienced employees.

Secretary WELCH. The current average age of new hires in the DON is 32. In 1989, the average age was 29. We have no specific information to explain the increase, but believe it could be a normal result of the outsourcing and downsizing of the entry and developmental level work over the past 10 years and the resulting increase in the grade level of the residual work force. Higher level work results in higher grades, requiring a higher level of experience usually gained by an older workforce. We have not determined whether mid-thirties is a desirable average entry age for employees.

Secretary KEENER. Within the Air Force, the average age for new accessions in FY99 for administrative and professional jobs at all grade levels was 40 and 38, respectively. The average age for other employment categories was slightly lower. We have seen a slight aging trend in all employment categories over the past ten years. During FY99, the average age for new accessions at the GS-07 and 09 levels was 35 and 41, respectively. Ten years ago the average age for new accessions at the GS-07 and 09 levels was 31 and 38, respectively. The average age for our newly hired centrally managed interns at the GS-07 level for FY99 was 32.

There are a number of regulatory and statutory factors that affect the average age of new accessions. These include statutory veterans' preference and the regulatory priority placement programs that provide employment priority for employees being adversely affected by reduction-in-force. Further, as an open employment system, we have the capability to hire employees at any grade level, from trainee to full-performance. During the past ten years, we have seen a shift toward a more senior force that is directly related to hiring more experienced resources to make up for large reductions in overall size of the workforce. Our workforce is out of balance and we have initiated corrective action. As part of our civilian workforce sustainment efforts, we are establishing and funding more centrally managed interns and also are encouraging supervisors to restructure positions to allow for a steady intake of developmental trainees with new ideas and state-of-the-art skills. We do not view any particular average age (e.g., 35) as being desirable. Primarily, we are striving for a more balanced workforce that includes employees at both the trainee and full-performance levels.

Mr. BATEMAN. What proportion of job offers in DOD go to recent college graduates vice older workers being selected off of priority placement program lists, or the hiring of retired military personnel? Stated another way, is the hiring that is taking place today contributing to or helping to alleviate the aging workforce issue?

Secretary DISNEY and Mr. COOKE. In FY 1999, DOD hired 23,000 new employees on permanent appointments. By contrast, about 4,000 existing employees were matched with vacancies through the Priority Placement Program (PPP). We anticipate that the ratio of outside hires to internal PPP placements will increase in the future due to two factors: (1) Our budget calls for a slowing of the drawdown in the coming years, thus allowing us to hire more new workers; (2) The imminent comple-

tion of the last Base Realignment and Closure round should decrease the number of displaced workers needing help through the PPP.

Since our new hires are, on average, about nine years younger than those already in our employ, the recruiting we have been able to do has prevented workforce aging from progressing more than it has. About one-third of our permanent civilian accessions in FY 1999 were 30 years of age or younger. By comparison, about one in eight was a military retiree.

Secretary SNYDER. The Department of the Army does not maintain data on job offers made to applicants and, therefore, I cannot say how many offers today are being made to recent college graduates, older workers on priority placement lists, or to military retirees. The data maintained on civilian accessions show that current Army hiring is not contributing to the aging workforce issue. In 1996 and 1999, for example, approximately 50 percent of new hires were below the age of 35.

If one looks at hiring data for the 1980s, one finds that the percentage of new hires below the age of 35 was higher than it is now. For example, the percentage of new hires under 35 was approximately 66 percent in 1985 and 64 percent in 1987. The decrease in proportion of new hires under 35 over the last decade or so can be attributed to two facts; that the population as a whole is aging and that a shift in the composition of the Army civilian workforce has sharply reduced the number and proportion of clerical and lower level administrative support jobs, which are typically occupied by employees with a lower average age than other occupational categories.

As I stated in my previous answer, the Army does not believe the quality of employee performance is a function of age. The aging of the workforce is of concern to us only in terms of whether an adequate number of well qualified individuals will be available to succeed the large numbers of employees whom we expect to retire in the near future.

Secretary WELCH. We have not made a comparison of hiring data against the date of college degrees, so a determination of the proportion of these hires is not possible at this time. However, the data show that approximately 26% of our new hires have at least a 4-year degree and that the average grade at which they are hired is 9.9 versus 7.9 in 1989.

Secretary KEENER. According to Air Force statistics, approximately 21% of our new accessions do not have prior Federal civilian or military experience. We do not have data that reflects what percentage of these new hires are recent college graduates. Fifteen percent of our new accessions were employees placed from other DOD components through the DOD Priority Placement Program and 19% were retired military. Consequently, based on regulatory and statutory factors, as well as management decisions to select employees at the full-performance level, we now have a workforce that is out of balance. However, we are taking the appropriate action to hire a larger percentage of new employees at the developmental level, including recent college graduates with the needed state-of-the-art skills.

Mr. BATEMAN. Are there certain occupational specialties or areas where the aging workforce issue is a greater factor than in others? If so, what are they, and what are your plans to deal with the issue?

Secretary DISNEY and Mr. COOKE. Having a regular inflow of new college graduates is most obviously crucial in our science and engineering and information technology occupations where the body of knowledge is changing most rapidly. As stated earlier, DOD needs to be competitive with private industry benefit packages to include advanced academic degree training as well as expanding use of recruitment and retention bonuses.

Secretary SNYDER. Yes, we are more concerned about the aging workforce in occupational specialties in which the average age is above that for most of our other occupations and there are few or no external sources of well qualified employees. Our two career programs for ammunition management and many of the members of our training career program are examples, although the number of employees needed for the ammunition management function is not large. Due to the nature of ammunition management work, the Army has "grown" the individuals with the necessary knowledge and experience through an internal, intensively managed career development process. As we believe that performance of the ammunition management function is likely to remain mostly in-house, we need to develop in-house replacements for those whom we expect to retire soon. Similarly, because many of the employees in our training career program need qualifications similar to the branch qualification required of Army officers to perform their jobs effectively, we plan to continue "growing" replacements in-house.

Secretary WELCH. As stated in both written and oral statements before the Readiness Subcommittee and the Civil Service Subcommittee, the DON is particularly concerned about the data on aging as it applies to the core work of the Department.

In the next five years, 47 percent of our engineers, 55 percent of our scientists, 70 percent of our computer specialists, and 64 percent of our contract specialists will be eligible for retirement. These data are exacerbated by the data on hiring over the past few years with the resulting impact on the availability of employees in the replacement pipeline in these career fields. In response to these data, the DON has initiated a renewed recruitment program, which will provide training, materials, and coordination focused on both college-level and career/job fair recruiting opportunities.

Secretary KEENER. While nearly all career fields are showing similar aging trends, we are particularly concerned with those specialties where skills currency is of critical importance. For example, our engineering, information technology, and acquisition occupations are susceptible to skills obsolescence due to rapidly changing technology.

We have initiated legislative proposals to expand the use of early retirement authority and buyouts to include force shaping. Additionally, we have implemented the force shaping strategy and conducted a Civilian Workforce Shaping Summit to develop additional legislative and policy proposals. Our objective is to achieve a sustainable/competitive career civilian workforce, with the right balance of skills and experience to contribute to Air Force mission accomplishment now and in the future.

Mr. BATEMAN. With the emphasis on outsourcing in DOD, to what extent have DOD components made an effort to identify a minimum level of DOD civilian employees needed to perform inherently governmental functions and ensure adequate institutional knowledge is retained in-house to provide appropriate monitoring of contract awards.

Secretary DISNEY and Mr. COOKE. As part of its competitive sourcing program, the Department conducts an annual review of its manpower to determine which military and civilian positions within the Department are inherently governmental, subject to competition under OMB Circular A-76, and exempt from competition. When identifying inherently governmental work, DOD Components assess what manpower is necessary to ensure that DOD decision-making officials maintain sufficient oversight, control, and accountability over government programs and operations. This includes manpower that is needed to protect public interests by ensuring that decision-makers play an active, informed role when awarding, administering, and terminating contracts, ordering changes in contract performance or contract quantities, taking action based on evaluations of contract performance, and accepting or rejecting contractor products or services.

Secretary SNYDER. Within the Department of the Army, the issue of identifying inherently Governmental functions has been viewed as a functional determination that is largely a separate issue from that of identifying the minimum level of civilian employees needed within a function. Accordingly, the decisions as to what functions are or are not inherently Governmental have been framed more with a view to the nature of the function itself—is this a function that can be performed in the private sector rather than focusing on the current way contractor oversight duties are delegated within the function. On the other hand, the very different question of identifying the minimum level of civilian employees needed for adequate monitoring of contracts within the Department is a policy matter still under review and is very much constrained and affected by how the Department is currently organized to perform any given function. Using this standard, about 95 percent of the functions performed by civilian employees within the Department of the Army have been determined to be not inherently Governmental, and about half of these non-inherently Governmental functions have been exempted from private sector performance to retain core capabilities on National Security or other grounds (such as maintaining adequate oversight of contracts). The Army recently adjudicated 127 challenges to the Federal Activities Inventory Reform Act list of non-inherently Governmental functions and made the rationale for its decisions public at the following web site: <http://www.asamra.army.pentagon.mil/fair>.

Secretary WELCH. The DON has not completed its study and analysis of future workforce requirements.

Secretary KEENER. All functional activities within DOD have conducted intense position-by-position reviews utilizing guidance issued under Defense Reform Initiative Directive (DRID) #20, Review of Inherently Governmental Functions. This review directed the components to determine which functions and positions are inherently governmental; commercial activities exempt from OMB Circular A-76 competition; and commercial activities that should be competed. The review was completed in Oct. 98 and resulted in the coding of all positions in the Air Force.

The Air Force will continue to annually review its entire manpower inventory in an effort to properly identify inherently governmental functions and commercial activities. This annual review will ensure an iterative approach to capture any

changes based on today's dynamic environment. Regarding retention of in-house capabilities to properly monitor awarded contracts, functional area staff and managers are retained to ensure compliance with the terms of the contract.

In addition, the Air Force has developed a Strategic Sourcing gameplan as an option for use in conjunction with A-76 studies. Strategic Sourcing is a program that allows for a variety of options to achieve downsizing goals. While A-76 remains the foundation, such approaches as reengineering, adoption of best business practices, privatization, and divestitures may also be considered. While it appears most savings can be achieved through the competitive sourcing process, this initiative expands our options.

Mr. BATEMAN. Among the tools available to agencies that face recruitment and retention challenges are recruitment bonuses and retention allowances. Despite the media articles indicating that agencies are having difficulty attracting and retaining employee, we understand that agencies very seldom use either of these tools. How extensively does DOD use these tools? If they are seldom used, please explain why. Also, if they are seldom used, do you believe that agencies should use them before seeking any additional tools from the congress to address recruitment and retention issues?

Secretary DISNEY and Mr. COOKE. As the table below indicated, the Department of Defense has increased its use of recruitment bonuses, relocation bonuses, and retention allowances. From Fiscal Year (FY) 1994 through FY 1999, the number of recruitment bonuses, relocation bonuses, and retention allowances increased 411 percent, 139 percent, and 463 percent, respectively. For the same period, the total value of these bonuses and allowances increased 201 percent, 166 percent, and 426 percent, respectively, though the average amounts did decline for recruitment bonuses and retention allowances.

BONUSES AND ALLOWANCES PAID TO DOD CIVILIAN EMPLOYEES FY 1994 THROUGH FY 1999

	Recruitment Bonuses		Relocation Bonuses		Retention Allowances	
	Number	Avg. Amount	Number	Avg. Amount	Number	Avg. Amount
FY 1994	114	\$10,477	52	\$10,107	385	\$8,904
FY 1995	89	9,862	35	7,712	486	9,276
FY 1996	96	10,373	67	10,216	675	9,812
FY 1997	137	7,132	73	11,159	957	9,570
FY 1998	177	7,800	72	9,416	1180	9,069
FY 1999	582	6,172	124	11,256	2168	8,315

There has been a significant increase in the number and value of these incentives since the General Accounting Office reviewed retention allowances in December 1995. The Department is making effective use of these tools in appropriate situations, and supports legislative changes that would increase agency flexibility in this area. It is important to note that because these bonuses and allowances are not increases to basic pay, they provide an effective solution only when an increase to basic pay is not warranted.

Secretary SNYDER. The Department of Army's database indicates the use of recruitment bonuses is on the rise. During FY 1998 only 94 recruitment bonuses were authorized; however, there were 227 recruitment bonuses authorized for FY 1999.

Our prior limited use of recruitment bonuses is not really surprising. Given that the Department of Defense was still undergoing downsizing in FY98, extensive use of recruitment bonuses would have been unexpected. Now, with downsizing leveling off, the use of recruitment bonuses appears to be on the rise.

Several activities have indicated that, although they authorized 25 percent recruitment bonuses for specific positions, the candidates did not accept the positions. We find it regrettable that we sometimes cannot compete with private industry—even when offering bonuses. We are aware that OPM is developing a proposal to amend title 5, United States Code, to make certain pay flexibilities easier to use and more helpful in recruiting and retaining employees. One of the flexibilities in its proposal would allow larger recruitment bonuses based on the length of the new employees' service commitment. The Department of Army strongly endorses this proposal, as it will better enable us to compete with private industry.

Currently activities interested in providing recruitment bonuses to eligible applicants have to pay the bonuses in lump sums. This is costly for the activity as the bonuses can be up to 25 percent of employees' salary. To provide greater flexibility on payments of recruitment bonuses, OPM has proposed a change to its regulations to allow recruitment bonuses to be paid by various methods—as an initial lump

sum, in installments, as a final lump sum upon the completion of the full service period, or in a combination of the above payments. This proposal will offer relief as the costs can be spread across fiscal years. In addition, the proposal will allow greater flexibility in structuring payments that offer the employee greater incentive to complete the full service stipulated in the agreement.

With regard to retention allowances, their usage remains low within the Department of the Army, with about 250 authorized for FY 1999. One reason for low usage may be criteria limiting eligibility. Although Army received several inquiries regarding retention allowance eligibility, it was determined the employees did not meet the DOD requirements. Another concern is some of our activities are competing with other Federal agencies for experienced personnel, such as in the case of Army Air Traffic Controllers at Fort Rucker, Alabama being hired by the Federal Aviation Administration (FAA). The FAA is no longer paid under title 5 which has increased their salaries approximately 10 to 15 percent above General Schedule rates. OPM is proposing a change that would allow agencies to pay a retention bonus to an employee who is likely to leave his or her job for another Federal position. This change would greatly enhance Army's ability to retain critical employees.

The Department of Army heartily endorses OPM's proposals regarding the pay flexibilities for recruitment and retention of employees. If these proposals are enacted, we should see more usage of these bonuses and allowances. These changes would expand agency flexibility to offer the bonuses and could forestall the need for a request to Congress for additional tools to address recruitment and retention issues.

Secretary WELCH. The DON fully supports the use of recruitment bonuses and retention and relocation allowances as tools to meet current and future staffing needs. We recognize, however, that these authorities are not being fully utilized across the Department.

During FY99, DON commands and activities paid 292 recruitment bonuses (total accessions 12,324), 57 relocation bonuses, and 262 retention bonuses (total separations 18,994). We are currently working with our commands and activities to determine why the usage data are so low, and to identify ways in which these and other incentives and flexibilities can be more completely integrated into the staffing process. Funding is almost certainly an issue.

Secretary KEENER. Although these authorities have been used conservatively since their creation in the Federal Employees Pay Comparability Act of 1990, the Air Force has increasingly used these tools over the last few years, as has the rest of the Federal Government. In FY99, a group retention allowance of 10% was approved by the DOD for Air Force reserve pilots, and was being paid to nearly 600 pilots during that fiscal year. Additionally, they have also been paid in the first half of FY00 to critically skilled employees in certain locations, such as computer specialists. In all, for the first two quarters of FY00, 142 retention allowances (new in FY00), 54 recruitment bonuses, and 12 relocation bonuses have been paid.

The most frequently heard reason for the bonuses' seldom use is their cost. Payment of a lump-sum bonus does incur a substantial up-front cost, as opposed to other compensation-related tools such as special salary rates, which are paid out over time as part of an individual's basic salary. The cost of bonuses adds a potential burden to already overstretched budgets since they are not separately funded, but must be taken out of available operating budgets. If these bonuses are used, they must compete with civilian pay requirements and other essential programs for funding.

Agencies should be authorized to use the recruitment and retention tools that they consider most effective in targeting individuals or groups, and should not be required to use the bonuses before seeking other tools from the Congress. For example, since the bonuses are not credited in computing other benefits such as retirement annuities, they may not be an attractive incentive to work for the Federal Government for some experienced, highly skilled candidates. For this reason, we believe that a variety of tools should be made available to federal managers for recruitment and retention purposes.

Mr. BATEMAN. Civilian employees are often deployed with the military forces today. Do you have the tools you need to manage a deployed civilian workforce?

Secretary DISNEY and Mr. COOKE. We have a number of special provisions that apply to our deployed civilians. Examples of legislative and policy initiatives that have been effected on behalf of these employees include the following:

- Leave restoration: Under recent legislation, there is now automatic restoration of excess annual leave for employees who are unable to schedule or use leave while in a combat zone.
- Special Danger Pay Allowance: At DOD's request, the Department of State (DOS) has authorized Federal civilian employees accompanying US military forces

the same flat rate (\$150 per month) as military personnel receive when they are authorized imminent danger pay. This flat rate only applies in areas where danger pay is not authorized elsewhere by DOS regulation.

- Medical Support: Under DOD policy, deployed civilians are authorized the same medical treatment as their military counterparts in the theater of operations.
- Casualty Assistance: Casualty assistance is provided to family members of civilians who become casualties during operational missions.
- Mail: When free mail is authorized for military, civilians are also entitled to free mail while in the theater of operation.
- Recognition: We recently presented the first Armed Forces Civilian Service Medals to civilians deployed in Bosnia and Hungary.

During Operation DESERT SHELD/STORM, fewer than 3 percent of our deployed forces were civilians. Today, 7 percent to 13 percent of our forces deployed worldwide are civilians. Further, the increased reliance on civilians in support of military operations will continue in the downsizing environment. Therefore, we will continue to seek ways of addressing the unique needs of our deployed civilian personnel. To that end, we have created a Department-wide Working Group expressly to identify the needs of deployed civilians and propose necessary policy and legislative changes.

Secretary SNYDER. Generally speaking, we do have the tools to manage a deployed civilian workforce. However, as a result of Operation Desert Storm, Army commands expressed the need to provide certain benefits for deployed civilians, not only to assure fair treatment but also to provide added incentives for civilians to volunteer for deployment. The Army supports initiatives in two areas that require improvement.

First, we need to provide emergency-essential Army civilians the opportunity to maintain adequate life insurance protection when assigned to a combat zone. Federal Employee Group Life Insurance (FEGLI) policies do not contain a "war clause." Basic life insurance and any optional insurance coverage the employee has elected are paid even under wartime conditions. Participation in the FEGLI program is voluntary. Some employees who decline this coverage (usually offered at the time of hiring) may have private insurance policies that contain a "war clause." If they are later designated emergency-essential and deployed, their families may not have adequate life insurance protection. Legislation is not required for OPM to grant emergency-essential civilians a FEGLI "open season" enrollment period. However, the Army seeks statutory language to provide the greatest possible assurance that employees designated emergency-essential will have the opportunity to enroll in FEGLI or to increase their FEGLI coverage. To eliminate any doubt about FEGLI coverage in wartime conditions, the Army supports a legislative proposal precluding any loss or reduction of FEGLI benefits that might arise during deployment.

Second, we need to improve income tax and estate tax treatment for civilians assigned to a combat zone and extend to the survivors of such employees income tax and estate tax treatment equivalent to that afforded the survivors of service members. Specifically, Army seeks the following for civilians assigned to a combat zone: non-applicability of Federal income tax in the year in which the employee dies in a combat zone or from wounds, disease, or injury suffered in a combat zone; and exemption from certain estate taxes, consistent with the exemption for service members, if the employee's death is related to deployment to a combat zone.

Secretary WELCH. This issue is not applicable to the Navy or Marine Corps.

Secretary KEENER. A limited number of Air Force civilians have deployed to several operations, thus contributing directly to readiness. Over 200 civilians deployed in support of Desert Shield/Storm and over 40 deployed to support our efforts in Kosovo. Today, we have civilian members deployed supporting Operations Northern and Southern Watch as well as Red Flag Exercises. Non-deployed civilian members also directly contribute to our readiness by maintaining operations in garrison or standing available to support our many reach-back operations. In addition, thousands of Air Force civilians make major contributions to readiness through technology advances in our research laboratories, and force support and maintenance and repair in our Air Logistic Centers and depots. The synergy and flexibility created by all our Air Force people—our "Total Force"—is what makes us the world's preeminent Expeditionary Aerospace Force.

From a practical standpoint, fiscal and operational costs limit the desirability of deploying civilians. Home station commanders have to weigh the additional cost of deploying civilians on their operating budgets. Overtime pay (time and a half basic pay) causes the most concern, since in most deployments, civilians must be paid overtime for hours they work over eight hours a day or forty hours a week. These expenses can become substantial and are paid by the commander to whom the civilian is permanently assigned. Also, since the majority of deployments utilize volunteers, the number of civilians involved is relatively small. From the deployed com-

mander perspective, the non-combatant status of deployed civilians is a limiting factor. Accordingly, we are evaluating ways to reduce the necessity to deploy non-combatants through improved systems which enhances "reachback" capability to provide services to deployed members.

For deployed civilians, we need such tools as giving deployed civilians a limited open season for Federal Employee Government Life Insurance (FEGLI). It is a good tool to help deployed civilians like the one already approved in the FY00 National Defense Authorization Act for automatically carrying over annual leave.

Mr. BATEMAN. Should deployed civilian employees enjoy the same Federal tax relief as those in uniform do, or should that privilege remain unique to the military? Has there ever been an American conflict in which civilian employees were provided Federal tax relief?

Secretary DISNEY and Mr. COOKE. To our knowledge, civilian employees have never enjoyed this privilege. We are currently reviewing a proposal to provide limited tax relief to civilian employees in a combat zone, but no decision has been reached.

Secretary SNYDER. In general, no, deployed civilian employees should not enjoy the same federal tax relief as those in uniform. Although many deployed civilians share many of the same risks and hardships as their military counterparts, an analysis of the financial benefits reflects that a typical deployed civilian's compensation—even without a monthly tax exclusion like that afforded deployed military members—is currently comparable to, if not slightly higher than, the compensation for a typical deployed military member of comparable grade. In addition to the opportunity to earn a substantial amount of overtime pay, civilians receive, under applicable circumstances, a number of allowances and differentials, e.g., danger pay (up to 25% of base pay) and post differential (up to 25% of base pay depending on the country of deployment). To my knowledge, Federal civilian employees have never been provided tax relief as a result of being deployed.

As I stated in my previous answer, however, the Army does support extending to civilian employees assigned to a combat zone the same tax treatment relative to survivor benefits that is afforded deployed military members.

Secretary WELCH. This issue is not applicable to the Navy or Marine Corps, however we would support an initiative on this issue.

Secretary KEENER. In comparing civilian pay, benefits, and allowances, deployed civilian employees' tax exemptions are comparable overall to their military counterparts. While deployed in a temporary duty status, federal civilian employees continue to receive their locality pay as part of their basic pay (taxable) from their permanent duty location in addition to being compensated for temporary duty such as per diem, travel, and lodging (non-taxable). Additionally, they may receive danger pay (upon being in a combat zone more than four hours which equates up to 25% of their pay) and may receive post differential (upon being in a combat zone beyond 42 calendar days which equates to up to 25% of their pay), depending on the location of the deployment, which are both taxable. Military members receive a smaller combat pay allowance, so exempting their base pay from taxes makes the situation more equitable in comparison to civilian employees. Further, if civilians are permanently moved to an overseas area on a permanent change of station move, they do receive additional non-taxable allowances such as quarters allowances and cost-of-living allowances (while losing their locality pay).

There has not been an American conflict in which civilian employees were provided federal tax relief.

Mr. BATEMAN. DOD policy limits assignments overseas to five years. The reason behind the policy is to encourage developmental assignments overseas and broaden the experience of the civilian workforce. This reasoning is sound, but I am not so sure that the Department is really operating a coherent program. We continually receive correspondence from high performing employees overseas being forced to return, and never hear from those in the US being blocked from overseas assignments. Why have a policy that creates discontent, uproots good employees, and has no apparent organized program behind it?

Secretary DISNEY and Mr. COOKE. Since 1966, the Department of Defense (DOD) has had a policy of limiting civilian tours in foreign areas to five years or less. The rotation policy is broadly written to reflect DOD's worldwide responsibility. It intentionally grants the Military Departments the flexibility to implement the policy to meet their changing mission requirements at each foreign location. While the policy's rationale has remained essentially the same as when first issued, the emphasis has shifted somewhat over time as overseas activities have undergone significant changes in mission.

The rotation policy allows for continuous assessment of civilian workforce requirements and promotes the efficiency of worldwide operations. Within the overseas

workforce, there is also a continual change in the skills that are needed as new missions emerge. The limit on foreign area tours gives management the flexibility necessary to adjust the skills mix to meet the new requirements. In addition, a foreign-area assignment provides employees with desirable international experience that is essential to career development, particularly at the mid- and senior levels. Employees who return from overseas tours bring a healthy new perspective to their organizations in the United States. Creating vacancies through the five-year limitation is necessary to allow this rotation to continue.

Equally as important, the employment of military spouses and family members on our military installations is critical to their quality of life in foreign areas where employment on the local economy may be restricted. We believe that there is a direct connection between family employment opportunities and retention of our career military members. The rotation policy also ensures a continuing supply of vacant jobs for our military spouses and family members.

In sum, then, we believe that the rotation policy greatly benefits the Department and its overall workforce.

Secretary SNYDER. The Department of the Army (DA) recognizes that the current Department of Defense (DOD) policy on overseas rotation means that some employees will return to the United States before they wish to do so. We support the DOD policy. In applying it, we recognize the need for variations that overseas commanders must respond to, based on critical mission requirements in the overseas environment. Our policy on overseas rotation provides the overseas commanders with the flexibility to extend or deny extension of overseas tours in order to maintain a high level of expertise in the civilian workforce.

With the continued reductions in civilian employment and closing of Army installations in overseas areas, the Army must retain its ability to limit employment in foreign areas as a means of managing overseas staffing levels and providing developmental opportunities for career employees. Our program provides Army employees return rights to the Army positions held prior to going overseas. We also assist employees who do not have return rights, with registration and placement through the DOD Priority Placement Program.

Secretary WELCH. The DON fully supports the 5-year overseas rotational policy and believes that it should be equitably applied. Provisions exist in the regulations for exceptions under unusual circumstances, and the DON has endorsed these exceptions when they were supported by the mission needs of the Department.

Secretary KEENER. In Mar. 97, the Office of the Assistant Secretary of Defense for Civilian Personnel Policy (OASD[CPP]) drafted a memorandum in which the five-year limitation on foreign employment established in Apr. 66 was reaffirmed. Since that time, the Air Force has taken a less permissive view on extending employees beyond the five-year limitation. The purpose of the overseas rotation program is to provide opportunities for civilians to gain overseas experience, to provide employment opportunities for family members, and to continue the influx of new ideas and skills to the foreign area. Adherence to the DOD rotation policy also provides for a systematic return of employees upon completion of their overseas tours. Essentially, it enables a greater number of Air Force employees to gain valuable, career-enhancing experience in the overseas area. Although we continue to believe the five-year rotation policy is fundamentally sound, there may be ways to improve the basic policy and its execution. At a recent Overseas Human Resource Management Conference, a recommendation was made to form a Department of Defense working group to assess the corporate and operational costs of managing the foreign area employment limitation.

Mr. BATEMAN. Please discuss the overall expected attrition rate in the DOD civilian workforce and what level of attrition is acceptable or desirable. Of course, acceptable or desirable attrition rates might vary by occupation. In your reply, please include data you may have available on how DOD's attrition rate for key occupational categories compares to attrition in private sector competitors for talented employees.

Secretary DISNEY and Mr. COOKE. During FY 1999, about 7.6 percent of DOD's civilian employees with permanent appointments left DOD through retirement, resignation, transfer to other Federal agencies, and other types of separations. This compares to a rate of 7.3 percent in the previous fiscal year, and 7.5 percent in FY 1997. We expect separation rates to rise modestly in the next few years as our older workers reach retirement age, but we do not project a dramatic exodus in any single year.

We consider these overall rates to be in the acceptable range. As the drawdown of the civilian workforce slows in the next few years, such loss rates should, in general, create sufficient vacancies to allow DOD significant opportunities for workforce renewal through new hiring. However, as stated elsewhere, spot surpluses will con-

tinue to occur in certain occupations at certain sites. To deal with these, we have requested additional force-shaping tools.

The table below contains loss rates for selected occupational groups in DOD for FY 1999. We do not have comparable data for the private sector, although available evidence indicates that separation rates are much higher outside government.

SEPARATION RATES FOR DOD CIVILIAN EMPLOYEES WITH PERMANENT APPOINTMENTS IN FY 1999
BY SELECTED OCCUPATION GROUP

	Percent
Engineers	5.3
Logistics management	6.9
Central management	7.2
Production workers	7.4
Miscellaneous technicians	8.5
Financial management	6.3
Data system management	9.7
Secretarial	8.0

Secretary SNYDER. The Army currently intensively manages approximately 84,000 civilian employees in 22 separate career programs. The overall turnover rate for these employees is about 7% to 8% per year, a rate that has remained essentially constant during the drawdown. We do not have comparable data for the private sector.

The Army is studying the degree of turnover variation by occupation group in terms of the kinds of workers employed (i.e., demographic, skill, and educational background), economic conditions, and Army's future civilian workforce needs. The total turnover rate in an occupational group can be assessed as either acceptable or unacceptable only when the desired future of that group has been discerned. Once that is accomplished, we can forecast the number of new hires or losses needed to reach an identified target end strength level.

Secretary WELCH. Within the DON we find attrition rates to be relatively stable in the professional series. For example, during FY99, attrition rates for mathematicians (6.2%), Physical Scientists (6.7%), Engineers (5.9%) and Biologists (8.5%) were relatively low. We have no private sector data to use as a comparison.

Secretary KEENER. The attrition rate for our core white-collar specialties has grown from 6% in 1996 to nearly 8% last year. The government-wide attrition rate is approximately 7%. Our aging workforce leads us to expect higher turnover in the future as employees reach retirement. This is a "good news/bad news" situation: "good" in that it will give us greater opportunities for bringing in new, fresh talent; "bad" in that we will be losing valuable, skilled, and experienced employees.

Our aggregate succession planning models show normal loss rates between 6% and 6-1/2% are in the range where we have a reasonable balance between force renewal and retention of experienced employees. However, we need, and are in the process of building, better forecasting models to help determine what the desired attrition rates should be for each career field.

Mr. BATEMAN. Could you review for me what the percentage reduction in your Fourth Estate has been since, 1989 or whatever date is more convenient so that we have an idea as to the relative size of the downsizing? Could you furnish us with the numbers on the drawdown of the various departments and agencies within the Department of Defense.

Secretary DISNEY. The "Fourth Estate" has been changing in size and scope over the past three decades. Changes in its civilian employment over the past decade are particularly illustrative of this fact. In September 1989, the Fourth Estate had 99,000 employees. It reached its peak in September 1994, with 155,000 employees and has steadily declined since, with 122,000 employees as of February 2000.

These changes stemmed primarily from the establishment of Defense Agencies and DOD Field Activities as the Department revamped its service and support structure to improve the quality and effectiveness of products and service delivery. This effort effectively transferred people and functions from the Military Departments and across Components to achieve unity of effort, centralized oversight, and economies of scale. As illustrated by the numbers provided separately, this process did not generate growth in the DOD workforce. Rather, the consolidation itself usually recognized significant savings in personnel or other resources.

Information on changes in civilian employment for all DOD is displayed in the table below.

DRAWDOWN IN CIVILIAN EMPLOYMENT IN DOD (ROUNDED)

	September 1989	February 2000	Change	Percent change
Military functions	1,117,000	704,000	413,000	- 37
US citizens	999,000	652,000	347,000	- 35
Foreign nationals	118,000	52,000	66,000	- 56
Civil functions	31,000	24,000	7,000	- 23
Total	1,148,000	728,000	420,000	- 37

AMC PROPOSED APPRENTICESHIP PROGRAM

Mr. BATEMAN. The Army Materiel Command has expressed some concern about the aging of skilled workers in the depots and has suggested that an apprenticeship program is necessary to train skilled workers for the future. What's your view? If you agree that such a program is necessary, please provide supporting analysis.

Secretary SNYDER. Headquarters, Department of the Army completed a preliminary analysis of AMC's depot maintenance job families to determine whether an apprenticeship program would be of value. Our preliminary findings and HQ AMC analysis support the need for a structured apprenticeship program in certain blue collar occupations. However, before we can arrive at a final conclusion, we need to determine the required endstrength for these apprenticeship occupations in future years so that we can accurately assess the number of apprentices needed to maintain a steady state and compensate for the impact of increased retirements. My staff is currently working with HQ AMC to complete the analysis.

Mr. BATEMAN. What has the Navy learned from the China Lake demonstration project?

Secretary WELCH. Navy's China Lake project opened the doors to new ways of hiring, paying, and rewarding employees. It was the first demonstration project within the Federal Government, and it allowed managers and employees to discuss salaries and the employer to offer salaries commensurate with employee skills, at or above normal starting salary rates. China Lake established pay banding to permit and facilitate flexibility in pay setting commensurate with performance.

As a result of the China Lake project, which is now a permanent Alternative Personnel System, the Department of the Navy (DON) is supporting a Department of Defense (DOD) strategy that will result in increasing flexibility in the hiring process, extending pay banding beyond the demonstration project sites, and empowering managers to reward good performance and to deal effectively with poor performance.

While the emphasis of the China Lake project was on hiring and developing of scientific and technical employees, the principal lessons were more generic in nature. Simplified hiring and appointing processes through such initiatives as category ranking and reduction in the number of appointing authorities and contribution based performance rating systems can be applied across the board.

Mr. BATEMAN. The Navy's shipyard apprenticeship program is frequently mentioned as a model. Please describe the program, why it was begun, and the results so far.

Secretary WELCH. The Navy's apprenticeship program is a Department of Labor-approved hiring and training program. It provides the tools and methods needed to identify candidates with potential to perform deck plate maintenance work, and integrates a program of formal post-high school education with on-the-job training and mentoring to provide a source of fully qualified blue collar employees.

The Navy began its apprentice program more than 80 years ago to respond to a need for shipbuilding and maintenance skills, which could not be fully or timely met by the private sector. The Navy was the preeminent employer of the type of skilled trades and crafts workers found at a shipyard, including shipfitters, welders, machinists, electricians, and pipefitters.

Apprentices are hired based on their potential ability to learn and perform trades and crafts work. Typically, apprentices enroll in a community college-based program of general education including courses in mathematics, drafting and blueprint reading, and materials science. They also attend formal classes at the job site where they learn specific job skills they will need in their selected trade. The remainder of their time is spent performing work under the guidance of journey-level workers.

During the last 10 years, as we closed shipyards and depots, our apprentice programs slowed down considerably, virtually emptying the pipeline for future workforce requirements. Now, thanks to increases in funding for FY99 and FY00, the Navy has been able to reenergize its apprentice programs to meet identified current and future needs. Apprentice programs at the shipyards in Pearl Harbor, Portsmouth, Puget Sound, and Norfolk are operating vigorously. During fiscal years 1999

and 2000, 227 new apprentices were hired at Portsmouth and Pearl Harbor. Currently, each of the shipyards projects hiring from 100 to 150 additional apprentices in a wide range of blue collar trades.

Our Systems Commands and the Atlantic and Pacific Fleet Commanders, who are responsible for the Department's depot-level workforce, consider the apprentice program an integral part of their efforts to prepare for the workforce of tomorrow. We believe that the proven methods of the Navy's apprenticeship programs can be applied in any depot-level maintenance program.

Mr. BATEMAN. Among the tools available to agencies that face recruitment and retention challenges are recruitment bonuses and retention allowances. Despite the media articles indicating that agencies are having difficulty attracting and retaining employees, we understand that agencies very seldom use either of these tools. How extensively does DOD use these tools? If they are seldom used, please explain why. Also, if they are seldom used, do you believe that agencies should use them before seeking any additional tools from the Congress to address recruitment and retention issues?

Mr. COOKE. Recruitment, Retention, and Relocations bonuses (hereafter referred to as 3R's) are used within the Fourth Estate, with varying degrees of frequency from agency to agency. Some agencies have attached recruitment bonuses to intern programs as an entry-level employment incentive. Others have used the retention allowance as a tool to retain much needed corporate knowledge and technical skills. Other agencies regularly offer relocation bonuses in critical skill areas of senior management. For the most part, we are able to recruit the people we need within the present salary structure (base pay plus locality). As resources become scarcer, we expect the use of the 3R's provisions to increase. We do endorse the concept of using the provisions available to us before requesting additional legislation to address recruitment and retention issues—except in cases of request for direct hire authority. In these instances, it may not be the salary that hinders the recruitment of new employees, but the extensive steps involved in merit principles that we must apply, that prevents us from competing with the quick selections and job offers that private industry can make.

QUESTIONS SUBMITTED BY MR. CHAMBLISS

Mr. CHAMBLISS. Why is a worker at Robins Air Force Base paid at a certain level but a worker in Atlanta, less than 100 miles away, might be paid at a higher rate?

Secretary DISNEY. Although the methodology for conducting wage surveys and developing area wage schedules is uniform throughout the system, no two Federal prevailing wage rate schedules are identical. Our experience in conducting locality wage surveys has shown that these differences, for the most part, are attributable to differences in the kind and size of private industrial employers located within each wage area and differences in the level of wages paid for various occupations by each private employer. Thus, the Federal prevailing rate schedules for different areas can reflect significant differences in levels of pay.

Mr. CHAMBLISS. Why might a worker doing the same job at another government agency at Robins AFB be paid at a higher rate?

Secretary DISNEY. Federal Wage Systems (FWS) employees doing the same job in the same location could be paid different rates for various reasons. For example, the employees could be at different grades or at different steps in the same grade. Some employees may be being paid from the Wage Leader or Wage Supervisor pay scale, or be entitled to grade or pay retention. All Department of Defense (DOD) FWS employees (not leaders or supervisors) working in Warner Robins will be paid at the same rate if they are at the same grade and step. There may be some differences in rates paid to other-than-DOD FWS employees because the DOD rates are based on local private industry rates.

Mr. CHAMBLISS. Why have general schedule employees received pay increases equal to twice the amount of the wage grade people over the last 14 years?

Secretary DISNEY. Answering this question requires differentiating the systems and then addressing the misunderstanding about pay rates.

Pay rates for General Schedule and Federal Wage System (FWS) employees are based on two distinctly different systems. The General Schedule is a worldwide schedule with 32 locality pay schedules applicable to the 48 contiguous states. FWS pay schedules are based on local prevailing rates developed by joint labor-management surveys conducted in 132 local areas. Congress restricts increases in FWS schedules to the amount of the increase in the General Schedule plus locality payments.

General Schedule employees have not received pay increases equal to twice the FWS increases over the last 14 years. The following table shows the General Schedule (including locality pay) increases versus FWS increases from 1986 through 1999.

OVERALL INCREASES FOR GENERAL SCHEDULE EMPLOYEES VERSUS FEDERAL WAGE SYSTEM
EMPLOYEES IN ATLANTA AND MACON, GEORGIA (INCREASES EXPRESSED AS A PERCENT)

Year*	Nationwide General Schedule (including locality)	FWS Atlanta	FWS Macon DOD	FWS Macon Non-DOD
1986	0	0	0	0
1987	3.0	2.95	2.93	2.95
1988	2.0	1.95	1.95	1.95
1989	4.1	4.05	3.39	4.05
1990	3.6	3.56	3.56	3.56
1991	4.1	4.07	2.74	-4.28
1992	4.2	4.15	3.60	3.70
1993	3.7	3.29	3.34	3.00
1994	2.2	2.33	1.12	1.06
1995	2.6	2.95	3.04	1.39
1996	2.4	2.46	2.47	1.85
1997	3.0	2.63	3.07	3.06
1998	2.8	2.53	2.84	2.61
1999	3.6	3.40	3.62	3.62
Average	2.95	2.88	2.69	2.04

*Calendar Year for GS and Fiscal Year for FWS.

Over the last 14 years, General Schedule employees' pay increased an average of 2.95 percent compared to 2.88 percent for FWS employees in Atlanta, 2.69 percent for those in Macon working for DOD, and 2.04 percent for those in Macon working for agencies other than DOD. Since 1995 DOD FWS rates in Macon have been increasing faster than the Macon (Non-DOD) or Atlanta FWS rates.

Mr. CHAMBLISS. Some specialized government jobs in the Macon, Georgia, wage area are not found in the private sector locally but may be found in another area, such as Atlanta. The data in Atlanta are not used in the prevailing wage schedule in Macon. Why would that be the case when there is nobody else in that category within the local area?

Secretary DISNEY. Atlanta and Macon, Georgia, are separate wage areas, with the local prevailing rates in each area being used to establish our FWS schedules. Both the General Schedule and the FWS schedules are applied to a wide variety of positions. Since the General Schedule is national in scope, jobs from across the entire nation are used in defining the schedule. Because the FWS schedules for Atlanta and Macon are each based on local wages, those occupations prevalent in each area are used to establish the schedule for that area. It is not unusual to find specialized jobs at a Federal activity where there are no local private sector counterparts. The FWS schedules do not address specific occupations but establish specific rates for each grade and step for all covered occupations.

QUESTIONS SUBMITTED BY MR. UNDERWOOD

Mr. UNDERWOOD. How would we better provide assistance to workers who are undergoing a dramatic work transition through no fault of their own and what about the issue of how we deal with the term "inherently governmental?" Also, would you please provide your comments on the ordnance handling on Guam being outsourced, the A-76 study performed, and the problems associated with having to bring people in to perform the work.

Secretary WELCH. The ordnance handling function was included as part of the Base Operating Support (BOS) multi-function A-76 study that was awarded to Raytheon on April 7, 2000. Because of the success we've had with contractor operated functions at Naval Magazine Lualualei, Hawaii, we believe we will achieve similar success at Naval Magazine Guam. The decision to include this function was closely scrutinized to ensure its suitability for contracting. A contingency is included in the contract to handle surge requirements similar to language contained in the contract for Naval Magazine Lualualei, Hawaii. The contractor is paid based on tonnage handled, and must be able to respond to workload fluctuations including significant surges.

Congressman Underwood's concern that the contractor may find it difficult to hire qualified, on-island workers for surge workload may be accurate. However, this is a performance contract and the contractor may have to hire employees from off-island to meet performance requirements. The Department of the Navy does not monitor the details of how or from where the contractor recruits its employees. Instead, we closely monitor the performance of the contracted work to ensure compliance with standards of operation and adequacy of results.

Mr. UNDERWOOD. Are you able to hire the skills you need to support the military services?

Mr. COOKE. The Fourth Estate is an amalgam of independent agencies, each with its own personnel authorities, diverse mission, function, reporting channels, operational requirements, culture, values, and workforce composition. However, within this diverse workforce, there is agreement that the job categories that are in high demand and that are difficult to recruit are in the areas of Information Technology, Electronics Engineering, Telecommunications, Acquisition, Accountants, Logistics, Personnel Management and Clerical/Administrative support positions.

Of the job categories mentioned, Information Technology is the field where we are experiencing and will continue to have the most difficulty in recruiting. The demand for IT expertise is very high among many federal agencies and the private sector. The Fourth Estate has a number of different programs and options available to meet those highly dynamic and changing IT needs. Included in our efforts to maximize our recruitment of IT professionals are newly developed intern programs at the high school and college levels, vigorous recruitment efforts for IT professionals, telecommuting pilot programs, and agency marketing. Some of our Fourth Estate agencies are designing developmental career programs to develop multi-functional employees, allowing the current workforce to develop new skills needed to keep up with changing technology. Indications are that increased use of the 3R's provisions as a recruitment and retention tool is expected. We anticipate that such programs will serve as an incentive to large numbers of new and current employees and provide an opportunity for them to achieve their career goals within the agencies.

