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MILITARY CONSTRUCTION, FAMILY HOUSING, BASE CLOSURES AND FACILITIES OPERATIONS AND MAINTENANCE

HEARING

BEFORE THE

READINESS SUBCOMMITTEE

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

HEARING HELD
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MILITARY CONSTRUCTION, FAMILY HOUSING, BASE CLOSURES AND FACILITIES OPERATIONS AND MAINTENANCE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
READINESS SUBCOMMITTEE,
Washington, DC, Tuesday, March 15, 2005.

The subcommittee met, pursuant to call, at 2:02 p.m., in room 2118, Rayburn House Office Building, Hon. Joel Hefley (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. JOEL HEFLEY, A REPRESENTATIVE FROM COLORADO, CHAIRMAN, READINESS SUBCOMMITTEE

Mr. HEFLEY. The committee will come to order. Today, the Readiness Subcommittee meets to address testimony from the Department of Defense (DOD) on the fiscal year 2006 budget request for military construction, family housing, base closures and facilities-related accounts.

I welcome our witnesses, and we look forward to your testimony, particularly, Mr. Grone, we always enjoy having you back here so that we can abuse you as much as possible, particularly in your new role, it is your first time in your new role.

Secretary GRONE. Yes, sir.

Mr. HEFLEY. New title. So that entitles you to more abuse.

The panel before us represents the Department of Defense's installation environment team. It is my hope that this panel will help us to understand the facilities-related challenges facing our military. I also hope they will help to justify what I view as yet another disappointing Military Construction (MILCON) budget request.

First, the non-Base Realignment and Closure (BRAC) MILCON request for 2006 is $400 million less than the amount appropriated in 2005. It is also $1 billion less than the amount forecast for 2006 and last year's budget. And as such, it appears that MILCON budgets continue to be the bill payer for other DOD priorities.

Second, the Department continues to fall short of meeting its 95 percent goal for sustainment funding. Not only does the budget only meet 92 percent of the requirements, but the Department still not has implemented models for restoration, modernization and base operations.

As a result, sustainment accounts will continue to be raided during the year to fund other must-pay requirements, and they will ultimately be executed at levels that will allow the continued erosion of our military facilities.

And, finally, Army base operation support accounts are funded at approximately 70 percent of requirements, leaving them at least $1 billion short of the level necessary to keep child care centers open, dining halls serving chow, lights turned on and base employees reporting to work.

Considering the Army base commanders have already considered such extreme measures in fiscal year 2005 due to budget pressures, I am astonished that the service has budgeted these accounts in this manner for 2006.

Last year, I expressed the view that the Department had put its facilities programs on hold until BRAC 2005 in the hope that billions of dollars in facilities funding shortfalls would vanish after BRAC. My perspective has not changed, and I am concerned that the backlog of shortfalls continues to grow due to new costs associated with changes in our global basing, Army transformation, Marine Corps force structure changes and now the enormous up-front costs of BRAC.

On this note, I hope Mr. Grone will address the committee's interest in the base realignment and closure process. Not only is the committee interested in the Department's justification for $1.9 billion in 2006 for implementation of BRAC decisions, but we are very interested to hear how the Department anticipates spending $5.7 billion in fiscal year 2007 for implementation.

Furthermore, I would like to hear the Department's justification of the relatively small $300 million request for the Office of Economic Adjustments. This office, which is tasked with the critical role of supporting community efforts to cope with BRAC changes, appears to be significantly underfunded for the task at hand.

And perhaps most importantly, I would like to ask Mr. Grone to describe his vision of the Department's disposal and reuse policies for the upcoming BRAC rounds.

For example, what will the roles of public auctions, public benefit conveyances and negotiated sales in BRAC property disposal, how do you see that breaking down? And how does the Department intend to manage BRAC property clean-ups more effectively? DOD's approach to property disposal will affect every community touched by the BRAC process in 2005.

For the members of this subcommittee, I should note that Mr. Grone's comments on BRAC today are well-timed in light of our Thursday subcommittee briefing from Government Accountability Office (GAO), Association of Defense Communities (NAID) and the Office of Economic Adjustment on community options for preparing and managing the local effects of BRAC. That briefing will be held at 2 p.m. in 2118 in Rayburn, right here in this room.

Clearly, the panel before us has much to address, so I want to close with one final comment. The House Armed Services Committee has a long history of recognizing the importance of facilities to military readiness and quality of life. We believe in treating DOD facilities as assets worthy of investment, maintenance and modernization.

The 2006 budget request does not treat DOD facilities as assets. Instead, it treats DOD facilities accounts as bill payers for other Department priorities. This approach erodes readiness and diminishes quality of life for America's military personnel.

I am confident that our witnesses recognize this fact, and I urge each of them to renew their commitments to increase and protect facilities budgets in the future. This is nothing new. We have been dealing with this for a long, long time.

At this time, I would like to recognize the Honorable Solomon Ortiz, my friend and colleague from Texas and the ranking member of this committee, for any comments he might have.

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

Mr. ORTIZ. Thank you, Mr. Chairman. It is nice to see some of our old friends here sitting on the other side.

I thank you, Mr. Chairman, and I join you in welcoming our distinguished witnesses, and I look forward to hearing their testimony on this important issue.

Mr. Chairman, let me first say that I am concerned with the direction that the Department has taken with regards to its overall military construction budget request. The fiscal year 2006 MILCON budget request is nearly half a billion dollars less than the 2005 request. It is $1 billion less than last year's budget forecast. I think this is very troubling trend.

It is a trend that suggests that MILCON continues to be used as a bill payer for the Department's other requirements.

At this funding level, the recapitalization of facilities will continue to slip. I hope that the Department has some plan to stop the slide quickly and recover the ground it has lost before this shortfall impacts the readiness of the armed forces.

I would like to point out that despite the MILCON shortage, progress is being made on improving the condition of military family housing. It appears that the services have public-private ventures and are now on track to eliminate inadequate family housing by fiscal year 2009. While this still is not soon enough, I am very pleased to see many military families already benefiting from housing PPVs.

I encourage the service to continue their efforts to support quality of life and correct the family housing problems caused by years of underfunding and neglect.

One last point I would like to address is the base operations support budget for the services. This budget was underfunded in 2004 and 2005, and the request for 2006 is no different. The Army's request for 2006 will only fund 71 percent of the Base Operations Support (BOS), which is the base operations support requirements, and will fall $1 billion short of meeting the Army's basic needs.

Base operations support represents such essential requirements as municipal services, force protection and communication services. It also funds family support programs, such as child care, gymnasiums, libraries and other quality of life programs that our soldiers and their families depend on.

Unless BOS is funded adequately, many installations will be forced to cut services. I do not believe that the services can afford to cut quality of life programs that directly affect morale. We ask a great deal of our service members and their families. Should we reward their service by asking for greater sacrifices at home? I

hope that our witnesses will take this opportunity to explain how the Department plans to correct this serious shortfall.

Mr. Chairman, I am interested in hearing the testimony of our witnesses and their thoughts on how we can endure the readiness of the Department's facilities and meet the needs of our service members and their families.

Mr. Chairman, I thank you and welcome all the witnesses. Thank you, Mr. Chairman.

Mr. HEFLEY. Thank you, Solomon.

First up is Phil Grone, the Deputy Undersecretary of Defense for Installations and Environment.

And, Mr. Grone and all the witnesses, without objection, we will enter your complete statements in the record, and I would ask each of you to take whatever time you need. This is important testimony, but at the same time if you can keep it brief and we can have some interchange, that would be good as well.

Next up is Geoffrey Prosch, Principal Deputy Assistant Secretary of the Army for Installations and Environment. Next is Mr. B.J. Penn, the newly confirmed Assistant Secretary of the Navy for Installations and Environment. And, finally, Mr. Fred Kuhn, the Deputy Assistant Secretary of the Air Force for Installations.

Phil, with that, we will turn it over to you.

STATEMENT OF PHILIP W. GRONE, DEPUTY UNDER SECRETARY OF DEFENSE (INSTALLATIONS AND ENVIRONMENT), DEPARTMENT OF DEFENSE

Secretary GRONE. Thank you, Mr. Chairman.

Mr. HEFLEY. And you really are welcomed back.

Secretary GRONE. I do appreciate that, sir. I truly do.

Chairman Hefley, Mr. Ortiz and distinguished members of the Subcommittee on Readiness, I am pleased to appear before you this afternoon with my colleagues to discuss the President's budget request for the Department of Defense for fiscal year 2006.

This budget request for the Department continues the efforts of this Administration to place our military infrastructure on a sound management footing.

The Department's management responsibilities extend to an infrastructure with 510,000 buildings and structures and a replacement value of $650 billion, as well as stewardship responsibility for roughly 29 million acres, or 46,000 square miles of land, roughly the size of Connecticut and my native Kentucky combined.

And this the business are comprising the Department's support for the support of military installations, assets and the stewardship of natural resources includes programs totaling over $46 billion for the coming fiscal year.

The President's management agenda contains three key elements for which my office has primary responsibility. Those initiatives include competitive sourcing, the privatization of military housing and real property asset management, the last of which is the focus of Executive Order 13327, issued on February 4 of last year.

We have made significant progress in many of these areas with the strong assistance of the Congress. The military housing privatization initiative is achieving results. Through the end of fiscal

year 2004, leveraging the power of the market and the expertise of industry, we have awarded 43 projects, privatizing 87,000 units.

To achieve the scope of those 43 projects, the taxpayer would need to provide $11 billion in military family housing construction. Over the life cycle, these privatized projects will save the taxpayer 10 to 15 percent, even when taking into account the allowances paid to our military personnel.

And 10 of those 43 projects have reached the end of their initial development phase, and tenant response is very positive.

By the end of fiscal year 2007, we expect 185,000 units of housing, 84 percent of the inventory, to be privatized.

The Department's efforts to more properly sustain and recapitalize our facilities inventory is also demonstrating results. Four years ago, the recapitalization rate stood at 192 years. The President's budgets supports a recapitalization rate of 110 years, and we remain committed to our goal to achieve a 67-year recapitalization rate in fiscal year 2008.

Facility sustainment is budgeted this year at 92 percent of the requirement. In both cases, we have built the program around private sector best practices and commercial benchmarks wherever they can be applied and continue to refine our models and guidance to keep them current those best practices and benchmarks.

We also continue our efforts to strengthen the nation's defense through the global posture review and BRAC. Abroad, we will reconfigure our basing and presence to meet the threats of the 21st century as opposed to the static defense of the Cold War. At home, we will rationalize our infrastructure to further transformation and to improve military effectiveness and business efficiency.

As well, the Department continues to be a leader in every aspect of environmental management. To make our operations more efficient and sustainable across the Department, we are continuing our aggressive efforts to implement environmental management systems at our installations based on the plan, do, check, act framework of the international standard for EMS ISO 14001.

In concert with the President's August 2004 executive order on facilitating cooperative conservation, the Department has developed a program of compatible land use partnering that promotes the twin imperative of military test and training readiness and sound conservation stewardship through collaboration with multiple stakeholders.

Moreover, we are fundamentally reengineering the business process for real property inventory, resulting in standard data elements and definitions for physical, legal and financial aspects of real property, and we have developed a real property unique identification concept that will enable greater visibility of our assets and linking them to our financial obligations.

Our most recent defense installation strategic plan, issued late last year, entitled, "Combat Power Begins at Home," reflects our focus on improving the management of our installation assets and to ensure their ability to contribute to military readiness.

All of our efforts are designed to enhance the military value of our installations and to provide a solid foundation for the training, operation, deployment and employment of the armed forces, as well to improve the quality of life for military personnel and their fami-

lies. While much remains to be done, we have accomplished a great deal, and with the support of this subcommittee, we will continue to do so.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Grone can be found in the Appendix on page 43.]

Mr. HEFLEY. Thank you, Phil.

Mr. Prosch.

STATEMENT OF GEOFFREY G. PROSCH, PRINCIPAL DEPUTY ASSISTANT SECRETARY (INSTALLATIONS AND ENVIRONMENT), DEPARTMENT OF THE ARMY

Secretary PROSCH. Chairman Hefley, Ranking Member Ortiz and members of the committee, I am pleased to appear before you today. This is my fourth year to have this distinct honor to represent our great Army and testify before Congress.

It is wonderful to be here today with old friends and Army supporters from this committee. I look forward to the opportunities this committee brings toward leveraging enhanced quality of life for our soldiers and families.

I have provided a written statement for the record that provides details of our Army's fiscal year 2006 military construction budget.

Joining me today are my installation management partners: Major General Geoff Miller, from the active Army; Major General Walt Pudlowski, from the Army National Guard; and Brigadier General Gary Profit, from the Army Reserve.

So on behalf of the entire Army installation management team, I would like to comment briefly on the highlights of our program.

I begin by expressing our appreciation for the tremendous support that the Congress has provided to our soldiers and their families who are serving our country around the world. We are a nation and an army at war, and our soldiers would not be able to perform their mission so well without your steadfast support.

We have submitted a military construction budget of $3.3 billion that will fund our highest priority active Army, Army National Guard and Army Reserve facilities, along with our family housing requirements. This budget request supports our Army vision, encompassing current readiness, transformation and people.

As we are fighting the Global War on Terror, we are simultaneously transforming to be a more relevant and ready Army. We are on a path with the transformation of installation management that will allow us to achieve these objectives.

We currently have hundreds of thousands of soldiers mobilizing and demobilizing, deploying and redeploying. More of our troops are coming and going on our installations than in any era since World War II. Our soldiers and installations are on point for the nation.

And on a special note, I would ask you to keep our forward deployed soldiers in your thoughts and prayers. New forces have rotated recently to Iraq. The 3rd Infantry Division is back for its second tour, and the enemy will test them early on. Keep them in your hearts and prayers.

The Army recently identified key focus areas to channel our efforts to win the Global War on Terror and to increase the relevance

and readiness of our Army. One of our focus areas is installations as flagships, which enhances the ability of our Army installations to project power and support families. Our installations support an expeditionary force where soldiers train, mobilize and deploy to fight and are sustained as they reach back for enhanced support from the installations.

Soldiers and their families who live on and off the installation deserve the same quality of life as is afforded the society they are pledged to defend.

The installations are a key ingredient to combat readiness and well-being. Our worldwide installations structure is critically linked to Army transformation and the successful fielding of the modular force. Military construction is a critical tool to ensure that our installations remain relevant and ready.

Our fiscal year 2006 military construction budget will provide the resources and facilities necessary for continue support of our mission. Let me summarize what this budget will provide for our Army: New barracks for 5,190 soldiers, adequate on-post housing for 5,800 Army families, increased MILCON funding for the Army National Guard and Army Reserve over last year's request, new readiness centers for over 3,300 Army National Guard soldiers, new reserve centers for over 2,700 Army Reserve soldiers, a $292 million military construction investment in training ranges and facilities support and improvements for our Stryker brigades.

With a sustained and balanced funding represented by this budget, our long-term strategy will be supported. With your help we will continue to improve soldier and family quality of life while remaining focused on our Army's transformation to the future force.

In closing, Mr. Chairman, I thank you for the opportunity to outline our program. As I have visited Army installations, I have witnessed steady progress that has been made, and we attribute much of this progress and success directly to the long-standing support of this committee and your able staff. With our continued assistance, our Army pledges to use fiscal year 2006 MILCON funding to remain responsive to our nation's needs.

Thank you for the opportunity to appear before your subcommittee and answer any questions you may have.

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

Mr. HEFLEY. Thank you.

Mr. Penn.

STATEMENT OF HON. B.J. PENN, ASSISTANT SECRETARY (INSTALLATIONS AND ENVIRONMENT), DEPARTMENT OF THE NAVY

Secretary PENN. Mr. Chairman, members of the subcommittee, it is a privilege for me to be here today. Being in this job for a little over a week, I can assure you I will be very brief.

I believe you will find much good news on the Department of the Navy's installations and environmental program from my written statement. I would like to talk about one specific aspect of our fiscal year 2006 budget request: The financing of our prior BRAC cleanup and caretaker needs with a mix of $143 million in appropriated funds and an estimated $133 million in land sales revenue.

It is important to view the 2006 prior BRAC request in the context of the fiscal year 2005 request. The Department expected to finance the entire fiscal year 2005 prior BRAC program from the sale of the former Marine Corps air station, El Toro, California and did not request nor receive any appropriations in fiscal year 2005.

That sale was delayed by unforeseen circumstances. Fortunately, the sale of portions of the former Marine Corps air station, Tustin, California in 2003, gave the Department the financial flexibility to slow fiscal year 2004 program execution to conserve cash to cover its fiscal year 2005 environmental commitment, most of which are in the State of California.

With fiscal year 2005 execution depleting prior year BRAC funds and the public auction of the El Toro property still a future event, the Department last fall opted to include appropriated funds in fiscal year 2006 to finance its minimum cleanup and caretaker needs, along with the conservative estimates for land sales revenue to accelerate the environmental cleanup.

Although the auction of the El Toro property has now been completed with a winning bid of nearly $650 million, I must caution the members of this committee that there is still some measure of risk ahead until the buyer and Navy complete the sales transaction at settlement. I want to emphasize that we cannot be absolutely sure of having land sales revenue until a settlement occurs, which is planned for sometime in July. The buyer of a previous property in 2003 defaulted at settlement.

Even after settlement, our past experience is that it often takes well over four months for the sales proceeds to be processed to the DOD accounting system before the funds are available to the Navy for program execution.

We still have a substantial cost to complete environmental cleanup, primarily at closed bases in California, and are developing plans to responsibly accelerate cleanup. That will be our first priority for the use of the land sales revenue.

Even with successful settlement of the El Toro property in July, we may still need some measure of fiscal year 2006 appropriated funds to finance first quarter program commitments.

Mr. Chairman, I would like to thank you and your committee for all you are doing for our great country. I look forward to working with you and the Congress on resolving this situation and on to more challenging installations and facilities issues.

Thank you.

[The prepared statement of Secretary Penn can be found in the Appendix on page 87.]

Mr. HEFLEY. Thank you.

Mr. Kuhn.

STATEMENT OF FRED W. KUHN, DEPUTY ASSISTANT SECRETARY (INSTALLATIONS), DEPARTMENT OF THE AIR FORCE

Secretary KUHN. Mr. Chairman, Mr. Ortiz and distinguished members of the committee, good afternoon.

This year's Air Force military construction budget request is the largest in 14 years with increases across the spectrum of Air Force operations throughout our total force. Our fiscal year 2006 military

family housing submission is the largest in Air Force history and keeps us on target to meet our goal of eliminating Continental United States (CONUS) inadequate housing in 2007, 2008 for four northern tier bases and 2009 overseas.

The Air Force remains committed to funding restoration and modernization to meet the Office of the Secretary of Defense (OSD) goal of a 67-year recapitalization rate by 2008. The Air Force is meeting OSD facilities sustainment goal by funding 95 percent and will continue to fund sustainment in accordance with that model.

Air Force facilities, housing and environmental programs are key components of our support infrastructure. At home, our installations provide a stable training environment and a place to equip and reconstitute our force. Both our stateside and overseas bases provide force projection platforms to support combatant commanders.

Because of this, the Air Force has developed an investment strategy focused on sustaining and recapitalizing existing infrastructure, investing in quality of life improvements, accommodating new missions, continuing strong and environmental leadership, optimizing use of public and private resources and eliminating excess obsolete infrastructure wherever possible.

In fiscal year 2006, the Air Force bolstered operation and maintenance investment in our facilities infrastructure, which is comprised of two components: Sustainment and restoration and modernization. Sustainment funds are necessary to keep good facilities good, and restoration and modernization (R&M) funding is used to fix critical deficiencies and to improve readiness.

This year, the amount dedicated to total force sustainment funding is $2 billion, right on the OSD goal of 95 percent of the facilities sustainment model requirement. In fiscal 2006, the Air Force's total force R&M funding is $174 million. In the future, the Air Force will invest in critical infrastructure maintenance and repair through our Operation and Maintenance (O&M) Program to achieve the OSD goal of a facility recapitalization rate of 67 years in 2008.

In conclusion, I would particularly like to thank the members of this committee and the Congress for its efforts to lift the cap on housing privatization. Without that relief, our military members and their families would be deprived of the opportunity to choose to live in a privatized home on or near our Air Force bases.

Our leverage of nine privatized dollars for every taxpayer dollar would have been lost, and additional pressures on the housing MILCON budget would have been immense. Your efforts are appreciated by all our Air Force men and women and their families.

That concludes my statement. Thank you.

[The prepared statement of Secretary Kuhn can be found in the Appendix on page 101.]

Mr. HEFLEY. Thank each of you. We appreciate it very much.

Let me ask you, it appears that if you look at the timelines of the BRAC process, that this bill will be completed along with the appropriations companion bill before the BRAC process is finalized. We do not know that for sure, but it would appear, if you look at all the timelines, that that will be the case.

Phil, you and probably the rest of you, except for those who have been here one week may not have, have visited bases after prior backgrounds, which had new basics changes, nice new parking lots with weeds growing up in them, computer centers, all kinds of things that were built new at bases just prior to base closings.

We do not have enough money to do everything. We do not want to waste any of these MILCON dollars, but we do want to provide you what you need to do your job. So what would your suggestion be to this committee as we look at the MILCON requests.

I know you cannot give away, because you probably do not know at this point, you do not because it has not gone to the committee and you may not have all your recommendations put together yet, do not know for sure what is going to stay and go. How would you recommend this committee handle it so that we do not waste money on facilities that are going to be closed fairly shortly but that we do put the money into things that are vitally needed?

Phil, you want to take that?

Secretary GRONE. Mr. Chairman, I will begin and then to the extent my colleagues want to further elaborate, certainly I hope they will do so.

As we built this budget request, as you indicated, we did not build the budget request and the services did not build their budget request with an eye on recommendations for base realignment and closure that were not yet able to be developed, because we were still doing the analysis. So the budget request reflects the Department's best judgment as to the support of its missions and forces in their current configurations.

As with all things in the first year of an implementation, there are steps we will have to go through. One of the steps we will likely go through, and I have discussed this with the Undersecretary of Defense Comptroller, is that upon the Secretary's release of recommendations to the independent commission on May 6, we will likely to provide the oversight committees and the appropriations committees with appropriate documentation on projects that we believe in the budget request are there, by the fact of the recommendations, no longer required and may provide for some additional substitutions for other needs of the Department.

I understand with regard to internal and committee markup and floor action, that timing is going to be a little tight, but I think it is fair to say that if we work in a collaborative way, heading toward conference agreement, I think we can probably work this out in a way where we will not have that kind of significant strains of investment or that we will be putting money in the actual budget for facilities we will not require.

We will have to sort of take our chances that the commission will not make any significant changes, but I think we will have to just, as we work through the year, work through that.

With regard to the underlying budget request for $1.9 billion, and you asked in your opening statement for some justification for that, we certainly today cannot provide a justification at a detailed level of how we would expend those funds in fiscal year 2006. That will have to await the final determinations of the commission process.

We built that number taking a very careful look at the lessons of the past. And if you look at the 1993 round of base closure and you sort of inflate the first year's request to current-year dollars, it comes out to about $1.5 billion, approximately. The 1995 round, if you applied that same analytical framework, represents about $1 billion in today's terms.

But the General Accounting Office, as they have noted on many occasions, indicated that the Department's recommendations for the 1995 round were smaller than were projected at the start of that process, and their analysis at the time found that the services' concerns over closing costs forced them not to take certain actions. There was an issue of affordability with regard to the internal BRAC process that caused the services to pull back from recommendations that they might otherwise have made.

So that when we look at that history and when we also consider the cost of returning forces from abroad as part of the global posture realignment and our desire to do that and utilize BRAC to be able to select sites within the United States, it seemed prudent to us that the request for $1.9 billion was reasonable.

We will exercise the same process that we have utilized in the first year of implementation from prior years. Upon the disposition of the recommendations, the committees will receive a report that detail how we will expend those funds in the first year of execution.

The Congress has traditionally given the Department great latitude on the budget request and awaiting that initial report, and it would be my expectation based on what we will need to do with the closure and realignment round, that we can sufficiently expend those funds and implement them in fiscal year 2006.

Mr. HEFLEY. Would the Department have any objections to something like a reverse supplemental by the 1st of the year if there were funds out there, we had closed the bill out, that would give you the authority, rescission authority, reprogramming authority for those funds so that we do not go ahead and spend them on some things—in other words, can we be assured that you are not going to let contracts until we know for sure what we are going to need?

Secretary GRONE. I think it is fair to say that in implementation we would not expend funds on any fiscal year 2006 project that we knew we were not going to need. That would not be prudent management. And in terms of any particular device that the Congress might suggest, I think we would have to discuss that with the appropriate senior officials in the Department, but I think anything that would improve our ability to work cooperatively and with some flexibility I think would be welcome.

Mr. HEFLEY. Thank you very much.

Yes.

Secretary PROSCH. Sir, If I could just reinforce what my colleague has said, we will continue to fund our highest priority projects without prejudice, but once the decisions have been made, we will evaluate all projects to determine the future utility and take appropriate action. We may withhold the award if we have time to do that, we could issue a stop work order if it is earlier enough on or we could elect to complete the project and include the structure as

part of the value of the closed property that we would work with our local reuse authority.

For us in the Army, this BRAC 2005 is very important to us. It is a strategic lever to help us transform. We are going to be taking a look at where we are putting our 10 new brigade units of action to validate where we have placed them. We will be using it to verify where we reset our OCONUS brigades coming home, and we will be using it to transform the Army by synchronizing and consolidating, and I think you will be very pleased with the candidate list.

Thank you, sir.

Mr. HEFLEY. Well, I just want it on your radar screen that we have made some mistakes, we have screwed up in the past with this, and I want it very clear that we do not want to screw up with it this time. And I am not even talking about saving money. I do not think your MILCON budget is what it ought to be, particularly in the Army, but we do not want to waste the money. We want to put it where you really do need it, so help us as we work through that process.

Mr. Ortiz.

Mr. ORTIZ. Thank you, Mr. Chairman.

Secretary Prosch, you described the installations as flagships. Can you please explain to the committee what you mean by flagships?

Secretary PROSCH. Yes, sir. That is one of the Army's 17 focus areas to allow us to really bore in on what is important. And it is to help us understand that installations are very, very key to everything we do. Think about what goes on at our installations. That is where we project power from, that is where we support our families, that is where we mobilize, demobilize, it supports an expeditionary force. We are transforming from a division-centric type of organization to a brigade unit of action organization where the brigades are task organized to hit the ground running when they deploy and hit the ground.

We have to have reach-back capability and with our satellites and our information management, our installations, we now have that. It is critical to our soldiers and our families, and to retain an all-volunteer force, we must have a top quality of life. Our soldiers live there, the families stay there when they are deployed, and surely our soldiers deserve the same quality of life that is afforded the people off-post that they are pledged to defend.

So they are a very key part of the Army vision, and as we transform, we want to make sure we keep a focus on installations.

Mr. ORTIZ. I know that everybody on this committee is waiting for the list to come out to see which bases are going to be on that list, what will be recommended. And this list may include installations that are vital to the defense industrial base which supports the war fighter.

Currently, our industrial capacity is under great strain to meet the needs of the forces in the field. When making determinations about base closure, is the Department considering the need to maintain a search capacity in the industrial base? Also, how is the Department ensuring compliance with the laws, such as the 50–50

rule when considering base closure. How does that play in that, the 50–50 rule?

Secretary GRONE. Mr. Ortiz, to the first part of your question on surge, the selection criteria that the Secretary had caused to be published required us within the scope of the analysis to consider mobilization, demobilization, contingency and other requirements. The Congress, believing that there was a bit of an ambiguity there and wanting to ensure that we did, as a matter of requirement what had been policy, required the insertion of the word, "surge," into the selection criterion 3.

So all of the analysis that we are doing, pursuant to the statutory requirements for BRAC and the implementation of the selection criteria in that process, all encompasses missions to take into account the components, the joint cross-service groups who are analyzing the common business oriented support processes, of which the industrial base is one, industrial base of the Department is one. We have to take surge into account.

Surge will vary depending upon the mission, it will vary depending on the needs of the component. But we have to define it, we have to asses it, and we have to take it into full consideration as we develop recommendations that the Secretary will produce in May.

So, yes, we are taking surge fully into account. And, certainly, with regard to existing statutory frameworks, everything that we are doing in the process is fully consistent with the statutory frameworks of existing law, and we will produce recommendations based upon it.

Mr. ORTIZ. So you do not think there is going to be any messing around with the 50–50 rule.

Secretary GRONE. Mr. Ortiz, I mean, I think I would like to stand on my statement that we will follow the statute. I would prefer not to get into characterizations of tweaks in any areas or adjustments in any area or what we may do in a particular area of analysis, as the Secretary has not finalized recommendations, and I would not want to mischaracterize what we may do within the industrial group or in any other group. But I think it is fair to say that we will adhere to the statutory framework as it has been laid out by Congress.

Mr. ORTIZ. As long as you understand where this committee stands or at least the caucus stands.

Secretary GRONE. Yes, sir.

Mr. ORTIZ. Something else that I would like to mention, I have been through all base closures. One of the things that I see happen is that when you close down a base many installations that have been paid by soldiers' funds—PXs, commissaries, theaters—are not paid by appropriation funds. They are paid by the money generated from soldiers' purchases and things like that.

Are we going to take that into consideration when we shut down a base to be sure that that money that belongs to the soldiers comes back to the soldiers' funds so that they can generate more support for the soldiers, family welfare for the children and things like that?

Secretary GRONE. It is certainly my understanding that as any assets that are mass supported, the proceeds resulting from those

kind of assets would return to the NAF accounts, and I believe there is a reserve account established, pursuant to law, for the receipt of those funds.

In prior years, there had been some difficulty with accessing those funds, because the funds were subject to subsequent appropriation. But I believe, and I can be corrected for the record, but I thought that provision has been addressed or there had been at least an attempt to address it. There was direct spending, I believe, associated with it, but I believe in a prior year it may have been addressed.

If it has not been, I will clarify that for the record, but, certainly, we are not unmindful of the soldier and sailors' funds, and, certainly, as assets are disposed of, that reserve account would be in receipt of those revenues.

Mr. ORTIZ. If you could look into that because we have seen some foreign bases where we have shut down, and of course that had to do with the State Department reaching an agreement of some sort where we lost millions and millions of dollars in facilities, from golf courses, to theaters, to bowling alleys, and we never saw that money. I just hope that somehow we could look after the welfare of the soldiers and that fund goes to where it belongs.

Thank you, Mr. Chairman.

Mr. HEFLEY. Mr. Ryun.

Mr. RYUN. Thank you, Mr. Chairman.

First of all, let me say thank you to the witnesses for being here and their staff and all the personnel that are in uniform for serving our country. We very much appreciate what you do.

I would like to address this, if I may, to Secretary Grone, and it is with regards to housing. Due to modularity and repositioning, many bases will soon experience large increases in soldiers coming back, which is a good thing. For example, Fort Riley in Kansas will have an additional 3,400 troops early 2006 and possibly more later in the future. Bases like this may experience housing shortages for military and civilian personnel.

What is DOD doing with regard to accommodating these needs, and do you have any recommendations for the surrounding communities as to ways they might be able to be prepared for all of this?

Secretary GRONE. Mr. Ryun, I certainly would, particularly with regard to the Army, yield at the appropriate time to my colleague, Mr. Prosch, but in a general way, what we have to be mindful of when we permanently station forces in new locations, particularly when we have a significant increase in the population of that base, the housing of course is an issue.

We will do whatever we can to work cooperatively with state and particularly local government and the development community to ensure how we can do that in as seamless a way as we possibly can.

With regard to our own programs, certainly our policy remains that we want to rely on the private sector and the private market first. If it is clear that that is not able to be absorbed or there is a capacity issue, our housing privatization authorities give us the ability to begin look at alternatives that would begin to build out that deficit, address that deficit to ensure that our people have adequate housing options available to them.

It will be a long-term process in some ways, but I believe that we are postured well internally looking at the heart of that question. Certainly, there are some things that we are not in a position to do yet until we have final outcomes. Where will temporary units of action be based on a permanent basis? Where will forces returning from Europe be based on a permanent basis?

And as those decisions come into clarity, we will be able to work with all affected stakeholders in this process but certainly local government to ensure that we have as seamless a transition as we possibly we can. But we are not unmindful of the impact, particularly on the local housing markets, and we are going to address that as well as we can.

Secretary KUHN. If I could add to that just a couple of examples of the cooperative efforts the Air Force and the Army and housing privatization are working the McGuire Air Force Base-Fort Dix combined initiative in New Jersey. We have been asked to look and consult with the Army as they are doing housing privatization at Fort Lewis in Washington and we at McCord Air Force Base taking into account that there might be additional forces from the Army potentially coming into Fort Lewis and how could our privatization help that.

We also have provisions, Mr. Ryun, in our housing privatization contracts that allow the successful developer, at his own risk, to build beyond the requirement. In other words, if he believes that they will come and occupy his housing with some minimal restrictions, he is allowed to build above the requirement, anticipating some of those points that you have. We are trying to be flexible in these areas.

Mr. RYUN. And if I may say, I appreciate the assurance you have given me, because I know a lot of my smaller communities that surround those particular installations are just concerned, they just need to know that there is a plan, and I wanted to reassure them of that, but I also know that there are certain things that have to happen here first.

And if I may go to a second question just very briefly, Fort Leavenworth is in my district and it is entering a final phase of construction on the Lewis and Clark Education Center. I have been informed that the fiscal year 2006 budget actually reduces the planned funding for that center by several hundred thousand dollars. Too early yet to tell what that cut means. In other words, if they start the project, are they going to have sufficient funds to actually finish it?

And so I guess that is my question: What kind of guarantee once they start, if they should start this, will there be that there might be some shifting of funds to allow them to go ahead and complete this most important education center?

Secretary PROSCH. Sir, let me comment for a minute, and let me just assure you on your previous question that the Army has pledged to work closely with you for the RCI project at Fort Riley, which we are very excited about. You will notice in the fiscal year 2006 budget, we do have $68 million of equity investment to fund the pump to make sure that that project goes.

And for the record, I would like to thank the good chairman and this committee for really coming up with this overall military hous-

ing privatization initiative. You all really created this, and we thank you for lifting the cap and for helping us to sustain this.

Concerning the Lewis and Clark facility, I am going to be at Fort Leavenworth on the 28th of March with Lieutenant General Scott Wallace, my college classmate. We are going to do a terrain walk, and I will get back to you personally to let you know the status of that project. I would invite you to join us if you would like, sir. We are going to have our installation association United States Army symposium in Kansas City where Phil Grone is one of the keynote speakers, and so we will be in your area of operations, and I will bore into that for you, sir.

Mr. RYUN. Thank you very much.

Thank you, Mr. Chairman.

Secretary PROSCH. And, finally, sir, our goal is to build it to the total requirement.

Mr. HEFLEY. Dr. Snyder.

Dr. SNYDER. Thank you, Mr. Chairman.

Thank you, folks, for being here.

Secretary Grone, I wanted to ask, I guess I have three questions I wanted to direct to you. First one can just be a really short answer.

One of the concerns that I guess all Americans that follow the issue has always been about the BRAC processes, both past and future, is are they going to be decided on the merits and not on the politics or in whose district or all the kind of pressures, and it seems like we have had a tremendous number of lobbyists involved in these kinds of activities on base closure.

If you were to give the process, as it has progressed over the last year or two, at this point, in terms of a process that is proceeding based on the merits and not on considerations other than the merits, what kind of a letter grade would you give it, A, B, C, D or F?

Secretary GRONE. On the merits, I give it an A-plus. I mean, there has been no consideration of politics in development, analysis, process. And as we build options for the leadership to consider and for ultimately for the Secretary to recommend, political considerations are not—favoritism toward any area for any particular consideration that bears no relationship to the military value simply is not part of the process.

Dr. SNYDER. Good. Thank you.

Secretary PROSCH. Sir, if I could just add from the Army's perspective, I have been very pleased to have the opportunity to participate. Ever since August, twice a week, we have been really working this very hard, and the thing that is encouraging in this BRAC is the jointness.

There are seven joint cross-service groups—Education and training, supply and storage, industrial, technical, medical, intelligence, headquarters and support activities—that are working very closely with the services. We have visibility over the Air Force and the Navy data, and so I think we have the opportunity for the first time to really have some jointness, to have an Army unit stationed at an Air Force base where it makes sense.

Dr. SNYDER. Thank you.

Secretary Grone, the second question I wanted to ask is about real property maintenance, and I read through your statement, and I do not know if the terminology has changed or I am having trouble sorting it out.

You may remember, I think it was in 1998 or so, one year on the committee staff here we had a witness from the National Academy of Engineering that thought we needed to aim for a two percent of plant replacement value as an annual budgetary number for real property maintenance. And if my calculation is right, $650 billion from your statement of real property replacement value gets us to $13 billion, an approximation of real property maintenance.

But I cannot—I mean, where are we at with regard to that? Did you aim for a two percent goal? Help me understand. Maybe the terminology has changed a bit or I do not understand the terminology.

Secretary GRONE. Yes, sir. I believe I can do that. What I am looking for is a couple of quick numbers here.

Dr. SNYDER. Are you in your written statement?

Secretary GRONE. One way of looking at a long-term maintenance requirement is the, and sort of an older way of sort of thinking about the question was as a raw percentage of plant replacement value. Depending on the kind of inventory you are discussing or depending, frankly, on which engineer you are talking to, it could be two percent, it could be three percent. I have seen some as high as 3.5 or 4 percent.

But in many ways, what we have tried to do is we have tried to move away from that framework, because it is useful as sort of a blunt instrument. What it is not useful is looking at your requirements from the experience of industry, the experience of what happens in your own inventory.

So what we have tried to do is move the framework from simply one that is driven by a raw dollar calculation to one that relies on private sector, appropriate public sector and other benchmarks, rigorously controlled by cost factors that feed a model that is sort of based on our own inventory.

So what we have tried to do is bring in a whole series of private sector best practices and apply them to our inventory in a way that would generate a requirement, a need for the Department to sustain its assets over the long term, attempt as best we can to budget to that need and execute as well as we can.

Over the long term, a fully funded sustainment program will have an impact or an effect on the long-term build to recapitalize your facilities. No one, in industry or in government, knows what the one-to-one relationship between those two are, but we are doing a lot of research and work on it.

But the old real property management, real property maintenance framework has given way to a different, more nuanced, more highly rigorously benchmarked concept called sustainment.

Dr. SNYDER. It seems that my time is up, Phil. It seems, though, that what you call more nuanced, it seems to me it is a bit difficult to follow. I mean, I frankly cannot tell if we have too much money or too little money in line with Mr. Hefley's concerns that we have got a bill payer budget rather than an assets budget or we are just like baby bear's porridge and just right. And I do not know how to

follow these numbers over time, and maybe that is something I could talk to you another time about.

Secretary GRONE. Well, the baseline does change every year. Cost factors change every year.

Dr. SNYDER. Right.

Secretary GRONE. For two or three running years, we were able to hold cost factors down, but with global markets, concrete lumber prices and the rest increasing, our need increases. We are trying to track markets, and we are trying to track private sector benchmark costs and apply them to our own facilities. That is really what we pay. We do not pay based on what happens to be two percent of our plant value. We pay on what is actually going on in the marketplace.

So in this President's budget, we have budgeted for 92 percent of the sustainment requirement. It is not full sustainment. It is a bit of a reduction in terms of the percentage of the requirement from what, as the chairman indicated earlier, but we do believe that it is a very sufficient amount to continue us on the pathway to good management practice.

And the fact of the matter is just a handful of years ago, we had no way of understanding what the need was. Now we have a way with a model to understand the need and try to resource to that need as best we can.

Dr. SNYDER. And maybe we can follow it over time.

Secretary GRONE. Yes, sir.

Dr. SNYDER. Thank you all for being here.

Thank you, Mr. Secretary.

Mr. HEFLEY. Dr. Schwarz.

Dr. SCHWARZ. Thank you, Mr. Chairman.

I would like to have each of you, perhaps starting with Mr. Grone and then Mr. Prosch, Mr. Penn, Mr. Kuhn, comment on the concept of joint reserve bases and with the BRAC coming, with there being numbers of reserve units which might be moved or actually shut down or combined with other reserve units and with there being certainly ample property on numbers of bases, one in fact in my district, how enthusiastic is the Department of Defense about joint reserve bases, having a base which would have an Army Reserve outfit, a Navy Reserve outfit, a Marine Reserve outfit and an Air Force Reserve outfit on it, maybe a couple of guard units from that state as well?

Does that not seem to be a pretty efficient way if such property is available and that property might have a 10,000-foot prevailing wind runway, it might have rail facilities, it might have—Mr. Grone, why are you smiling?

Secretary GRONE. I just was not sure if you were thinking about any particular installation. [Laughter.]

Dr. SCHWARZ. And might have 7,500 acres right next door that has been nothing other than a military base since 1917, but who is counting.

So just the general concept of joint reserve bases. Is that something that you are considering? Is that something that the Department considers a good idea?

Secretary GRONE. Well, certainly, sir, one of the important concepts, predicates of this BRAC process is to try to find ways and

means to improve the joint utilization of all of our assets, be they active or reserve, and to try to employ them more effectively from a total force concept.

So whether it would be opportunities that might present themselves in the process to create more joint reserve installations or facilities or to have reserve and active more directly share even more of the assets than they do today, all of those options are on the table as part of the process.

What we aim to do through that process is not start with the predicate that we have to have so many joint facilities come out at the end of the process. Where we want is we are starting with the best military value we can. And in order to support the joint war fighter, we are looking at all the options that we can to assure that we have the best infrastructure support for the joint war fighter. And in many cases, that may result in a recommendation to do something on a more joint basis.

But in terms of how many or whether or what the weight of emphasis is going to be on final recommendations, I simply could not say.

Dr. SCHWARZ. Would it be safe to say that in general it is a concept that you would embrace?

Secretary GRONE. Jointness is an important part of the BRAC process.

Dr. SCHWARZ. Any of the other gentlemen care to comment on that idea?

Secretary PROSCH. Yes, sir, if I could just comment. I would just assure you that Lieutenant General Schultz, the chief of the Army Guard, and Lieutenant General Helmly, chief of the Army Reserves, have a chair and meet with us every Tuesday at the Army Senior Review Group as we analyze all of our BRAC options with our active members.

One of the tools that you all have given us, the real property exchange tool, we have been using that to good use. Where we find an old armory and maybe a valuable piece of terrain in an urban area and we work with the local community to build a perhaps joint facility out in the suburbs. That is a great tool that you all have given us, something we are going to look at as we execute this BRAC 2005.

But if I could ask my colleagues behind me from the reserves and the guard, do you have any comments?

General PROFIT. Sir, Gary Profit, deputy chief of the Army Reserve.

I would only add that we have a process action team inside of the BRAC process that is looking at every opportunity to create joint reserve basing throughout CONUS, and we think it has great promise.

Dr. SCHWARZ. Thank you, gentlemen.

Thank you, Mr. Chairman.

Mr. HEFLEY. Mr. Butterfield.

Mr. BUTTERFIELD. Thank you, Mr. Chairman.

First, let me thank the four of you for coming forward today to give us your testimony and certainly thank you for the work that you do for our country. I want to direct my specific question to Secretary Penn.

Now, Mr. Secretary, I realize that you have only been on the job for a few days; so have I. That is why I am sitting on the lower tier at the far end. And so I share your anxiety, and I thank you so very much for coming forward today with your testimony.

I trust that by now you are somewhat familiar with the outlying landing field in eastern North Carolina. If not, I want to share a bit with you to give you some information on it.

The Navy is proposing to place an outlying landing field in my congressional district, which is in eastern North Carolina. Specifically, the field is to be located in Washington and Beaufort Counties, and I just want this committee to know and I want you to know and the Navy and the Nation to know that I fully support the development of an outlying landing field and certainly I support it in eastern North Carolina.

My constituents there in eastern North Carolina likewise support the development of such a field. But we are concerned, we are deeply concerned, the citizens of eastern North Carolina are concerned that this landing field is being placed in the middle of a wildlife refuge, and that is not good. And the citizens are very concerned about it. They feel that it is unwise and unfair to locate this landing field at this location.

The governor of our state commissioned a team of experts recently to examine this site and to propose alternatives, viable alternatives that may be within a few minutes of flying time from Oceana and Cherry Point and the other bases. And in just a few minutes I would like to submit a copy of the draft of that report of the governor's commission for your consideration and to be a part of the record.

What further complicates this matter, Mr. Secretary, is the fact that the United States District Court has heard this case; it is in litigation. A lawsuit was brought by the citizens of those two counties to the U.S. District Court, and the court has ruled in their favor and has issued an injunction against the Navy prohibiting further development of this site.

So we are very concerned about it, and I want you—I do not want to unduly put you on the spot here today. I realize that you are new to the process, but I want you to know that the people of eastern North Carolina are deeply concerned with locating this landing field in the middle of a wildlife refuge, and we are begging the Navy, we are urging the Navy to look at alternative sites.

I guess my first question is, Mr. Secretary, are you familiar with this issue in any respect?

Secretary PENN. Yes, sir, I am familiar with it.

Mr. BUTTERFIELD. Okay. And I guess the next question is, is the Navy just unalterably opposed to exploring any alternative site? In other words, are you willing to look at any alternatives whatsoever?

Secretary PENN. Sir, until we have the final results from the court action, the only thing we are doing is looking at other analysis of the environment.

Mr. BUTTERFIELD. Well, the case is ongoing, certainly——

Secretary PENN. Right.

Mr. BUTTERFIELD [continuing]. In the appellate courts, but for my understanding, the Navy is still attempting to acquire land in this region.

Secretary PENN. No, sir, we are not.

Mr. BUTTERFIELD. That is not correct.

Secretary PENN. No, sir, that is not correct.

Mr. BUTTERFIELD. And so the land that has been acquired—you are no longer making an acquisitions.

Secretary PENN. That is correct, sir.

Mr. BUTTERFIELD. All right. Has the Navy completed any type of bird management plan that would reduce the risk to pilots? This wildlife refuge is full of animals and birds that are 20 pounds in weight, they are 9 feet in diameter when fully extended. And the citizens are just so concerned about the possibility of bird strikes. Have you explored any——

Secretary PENN. Yes, sir.

Mr. BUTTERFIELD. Have you done any research on this?

Secretary PENN. We are in the process of conducting a BASH, which is what they call a study, on bird impacts now. And from experience, I can tell you there is nothing worse than hitting a bird in a landing pattern, especially a large bird. Quite often they come inside the cockpit with you. It is a very frightening experience. And you can lose an aircraft and the crew.

Mr. BUTTERFIELD. And of course you are a naval aviator yourself.

Secretary PENN. Yes, sir.

Mr. BUTTERFIELD. Of course, you would share that concern.

Secretary PENN. Yes, sir.

Mr. BUTTERFIELD. Yes.

Secretary PENN. But we are analyzing it to make sure that it has to be safe for everyone, and I think the area that we are concerned with is not exactly near the wildlife refuge.

Mr. BUTTERFIELD. All right. I just want to continue to urge the Navy to look at alternative sites. I know that has been resisted to this point, but I want to encourage you to continue to look at other sites, because other sites are available in eastern North Carolina.

And I am going to submit for the record, Mr. Chairman, with your permission, a copy of the governor's report. I yield back the balance of my time.

Mr. HEFLEY. Mr. Forbes.

Mr. FORBES. And thank you all for being here today.

Secretary Prosch, I would like to particularly thank you and your staff for all the work you have done to support the troops at Fort Lee and their families stationed there. You have just done a great job. And as you know, from time to time, some of those troops will approach us and they will talk about those 1950's era open-bay barracks that are still there and they ask when are they going to be modernized. And I know that you have a program that is doing that, and I was wondering if you could just share with the committee the current status of the Army Barracks Modernization Program.

Secretary PROSCH. Yes, sir. We are in the 13th year of this program, and thanks to your solid support, we have been making steady progress. With the fiscal year 2006 appropriation, we will be

85 percent complete with the modernizing of our barracks for our 136,000 single soldiers.

Over one-half of this year's active Army MILCON budget is for barracks. As I mentioned in my opening remarks, 5,190 new soldiers will now have barracks at the one-plus-one standard. The one-plus-one standard, as you know, is a suite that we build for the soldiers where we have private bedrooms, a walk-in closet, a shared kitchen and a bathroom area.

I had a chance to take my son when he was a college student into one of these at Fort Bragg, and he said, "Dad, how do you enlist? This is great." So we thank you so much for allowing us to give our soldiers what they really deserve.

I would like to also advise you that we are spending $250 million of OMA dollars this fiscal year 2005 to try to get at some of our substandard barracks that are in a red status. We want to triage these barracks immediately and make sure the heating, the air conditioning, in some cases mold and leaks are repaired. And so we are going to continue to make a steady progress, and you can tell those soldiers that it is coming, sir.

Mr. FORBES. Well, thank you, Mr. Secretary, and they appreciate it. As you know, they have waited a long time for it, and we just appreciate your efforts there.

Secretary Grone, I have a question for you about overseas bases. You know, we have had a lot of discussion about long-term bases in central Asia, for example, and I know that our traditional overseas bases existed in regions where the stability of the government was not much at issue. But the instability is of particular concern in some of the areas that we are looking at overseas bases.

Now, how do we ensure that our investment in long-term bases in these regions will not be wasted if we must at some time abandoned the bases we have built?

Secretary GRONE. Well, sir, the best way I can answer your question is we have, as you indicated, tried to provide Congress with our best thinking on this as we have moved along the process that the Secretary initiated nearly three years ago or about three years ago to take a look at our global assets and global basing and presence laydown and make what adjustments were necessary and prudent for the needs of the future rather than the requirements of the past.

In September, we provided a report to Congress. It was an initial report on our basing and presence laydown, and just within the last two weeks or so, each of the regional combatant commanders coordinated across the building and submitted through my office, submitted to the committee, overseas basing and overseas master plans for their areas of responsibility.

We are trying to take a long-term, prudent, reasonable approach to the basing laydown that U.S. forces will require. In not all cases are we talking about main operating bases with static forces in which we have traditionally been organized. In many cases, what we are looking for are access agreements, great deal of flexibility, a lightly to no stationing of U.S. forces in many of these locations. It would just simply give us the ability to fall in on infrastructure as contingencies would warrant.

So we will have a far more mixed approach to our basing laydown with main operating bases that look similar to our Ramstein Air Base, a main operating base, a large contingent of U.S. forces, significant mission and mission throughput, but in other areas, in other regions, we will have something that looks far less intensive that relies more on access and we can provide you all the appropriate briefing to give you a sense of what our best thinking is on this at the present time.

But to the extent that a good deal of that is classified, without getting into specifics, I think that probably might be the best approach there if I might suggest that.

Mr. FORBES. Thank you, Mr. Chairman.

Secretary PROSCH. Sir, if I could just jump in, just for one second. I would just urge you to support the Army's request for Outside Continental United States (OCONUS) funding this year. We have very carefully selected our projects in Germany for Grafenwoehr, Hohenfels; for Italy, Vicenza; and for Korea vicinity, Camp Humphreys.

These are enduring installations, and we have very good combatant commanders in General Bell and General LaPorte, who for a $20 million equity investment have earned over $800 million in host nation funding to support these projects. So it is a very wise investment, and we would appreciate your continued support here.

Secretary GRONE. Mr. Chairman, if I might just follow up quickly on that point. As we were developing the initial report to the Congress last year, we were very careful to look through the last year's budget request as well as the Future Years Defense Program and make financial adjustments based on where we saw the basing and presence strategy heading over time.

So we tried to take a very forward-leaning approach to remove military construction projects from areas where we were not intending to have a long-term presence, so we would not have that kind of stranded investment in the future.

And what we tried to do with this budget request, as Mr. Prosch indicated, is we have put a significant amount of resourcing, $782 million worth, for military construction to meet our requirements based on the Combatant Commanders' and the Secretary of Defense's and the President's best judgment for that overseas posture laydown looking to the future. And that is a reasonably consistent number, in fact it is less than what we have requested in some prior years, but it represents very clearly our judgment as to where we will be in the end state.

Mr. FORBES. My time is up but if at some time you could also get back to me, I know that China and Russia are increasing their military influence or trying to in central Asia, and whether or not that is going to pose a threat to our long-term efforts to establish long-term bases and facilities in that region.

Thank you, Mr. Chairman.

[The information referred to was not available at the time of printing.]

Mr. HEFLEY. Mrs. Davis.

Ms. DAVIS OF CALIFORNIA. Thank you. Thank you, Mr. Chairman.

Thank you to all of you for being here.

Secretary Penn, perhaps I want to ask you more of the questions, and I appreciate the fact that you have been on the job a very short time. But I wanted to just ask about the rationale for the Navy MILCON budget being below, I believe it was about a 14 percent reduction in 2006 from 2005. That is of interest to me.

But I also wanted to applaud the fact that we have raised the cap. I think particularly in San Diego that has been very positive. But could you also address the fact of how are we dealing with the privatization with bachelor housing? We know that one of the real management strategies in privatized housing is to move families in and out very quickly, but in some cases if we have bachelor housing, it works a little differently in the Navy because they do not necessarily give up that place on deployments and other needs to leave that housing.

Could you respond to that? How is that working? What is that vision that we have for bachelor housing facilities after privatization?

Secretary PENN. Yes, ma'am. At this time, we have three projects going for bachelor privatization. One, as you may know, is in San Diego, and we have already started on that. It is moving along fine. The second will be in the Chesapeake, the Hampton Roads area, and we are looking at the third in the Puget Sound area. We are also looking at trying to start a second phase, also in the San Diego and Coronado area.

Ms. DAVIS OF CALIFORNIA. Does it work the same as it does for families?

Secretary PENN. Yes, ma'am, it does. And it is working well.

Ms. DAVIS OF CALIFORNIA. So there are no transition needs that would be different in whether or not that particular service member is actually in that housing.

Secretary PENN. That is correct, it would not. When they go to sea, they will check out. Someone else can go in there, just like they do now. If you are living in a barracks, you go to sea, someone else moves into your space.

Ms. DAVIS OF CALIFORNIA. Okay. So will this be providing——

Secretary PENN. Exactly.

Ms. DAVIS OF CALIFORNIA. Okay. All right. Thank you.

I had another question about how we manage the land, because in urban settings where we have bases, we have geographic constraints, how are we doing at looking at the best use of land on those particular bases, especially where we have great housing needs.

It is interesting to me that in San Diego particularly the number of on-station housing units are so much smaller than in the community and what we depend upon in the community, and yet I do not know if we are looking as hard as we can. Sometimes it is finding ways of developing that housing on base.

Do you have a sense of whether or not we are looking into those issues as rigorously as we should?

Secretary PENN. Yes, ma'am, we are.

Ms. DAVIS OF CALIFORNIA. How do we evaluate that?

Secretary PENN. Quite often we try to get land obviously inside the fence line, because we already own it and we can use that. If it is not available, then we go outside the fence line, outside the

confines of the installation and purchase that land, Public Private Venture (PPV), and go forward from there.

Ms. DAVIS OF CALIFORNIA. If we develop land within the fence line and for some reason or other it is not filled by the military, what happens then? Do we move the fence?

Secretary PENN. Inside the fence line not filled by the military—sorry. If we get down to the point where we have empty units, private sector people can occupy the units inside the fence line.

Ms. DAVIS OF CALIFORNIA. On the base.

Secretary PENN. Yes, ma'am.

Ms. DAVIS OF CALIFORNIA. And have we done that on a number of occasions?

Secretary PENN. No, we have not at this time.

Ms. DAVIS OF CALIFORNIA. Okay. Thank you.

If I have some more time, Mr. Chairman, just a minute or two, just a question about the base operation support funding, and I know that we do see some concerns about shifting those dollars. Previously, we were able to take money out of other sources, the sustainment, restoration and modernization (SRM) accounts, apparently, and I am just wondering whether or not we are finding a different way to do that since we are not able to shift those dollars in the way that we did before? And of course some of those dollars were spent in the past, I believe, on services such as child support services, child care services.

Do we still have the ability to move some of those dollars if in fact we find——

Secretary PENN. Yes, ma'am, we do. One of the things that we have done recently we have set up a new organization called CNI, Commander Naval Installations, and for the first time we have been able to get our hands around a good budget as to what we need for our boss. And this is the year we have done it. We are confident that this is going to help us manage all of our assets much, much better. It really seems to be working well.

Ms. DAVIS OF CALIFORNIA. Thank you very much.

Secretary PENN. Yes, ma'am.

Secretary GRONE. Ms. Davis, with the chairman's indulgence, because it was mentioned in the chairman's opening statement, it is important to the question you just asked. With the sustainment—and all of this has to be looked at as a business process for facilities.

We began some years ago to work on the sustainment question, and we are in the seventh version of that model. We are this year taking the recapitalization metric from a metric to a model that will generate more fully the need for financing for recapitalization.

We are currently working on a joint—each of the services had a way of assessing their base operating support requirements but it is not a joint process the way sustainment and recapitalization are.

We had initially set out on a path that would have taken us three to four years to get to a joint programming model. We have accelerate that through working with each other to the prospect that we may have that model within 12 months.

All of that leads to an end-to-end business process for facilities and facilities management in the Department, which we have never had before. Within that process, we will still have the flexi-

bility, barring the imposition of any statutory prohibition, but currently we have the ability to move those funds around, all of which or most of which are operations and maintenance funding, from sustainment to base operating support, to O&M recapitalization, as circumstances require.

But as our end-to-end business process matures, it is better now than it was the year prior, than it was the year prior, and it will improve every year as we move forward, but as that process matures, we will have a far better sense as we are building a budget, even more than we do already, and we knew a good deal today, of what the real needs are and how we should budget and make those respective trades as we are building the budget. Which should, theoretically, and in most normal years put us in a position where we would have less money moving from pot A to pot B, because we would be more in a position to define that need.

We still need flexibility, however, for unanticipated bills, so we are working a joint business process together. We are putting more funds into these areas than we have in the past. We are benchmarking them to private sector standards while retaining some flexibility to meet our needs.

Ms. DAVIS OF CALIFORNIA. Mr. Secretary, if I may, just what would indicate to you that that is not working? What would be the first thing that you would look at in hoping that that flexibility exists that would not be occurring? How would you define that?

Secretary GRONE. Well, currently we have the flexibility to move funds from sustainment to base operating support and back, subject to the transfer limitations that are imposed by Congress and subject to reprogramming.

If there is a specific sort of instance at an installation, we can certainly look at that, but I am not—absent looking at sort of broad trends in execution or the way in which funds would move around, that is usually what we would look to as an indicator of something that is either we did not anticipate a requirement or a bill or whatever it might be.

Ms. DAVIS OF CALIFORNIA. One quick question: Will you still have the ability to shift the money between the BOS and the SRM under the new appropriations alignment?

Secretary GRONE. We would have that ability now and we would have that ability in the future.

Ms. DAVIS OF CALIFORNIA. Okay. You will have it. Okay. I was trying to get at that question. Thank you.

Mr. HEFLEY. Mr. Hayes. Sorry to wake you, Mr. Hayes. [Laughter.]

Mr. HAYES. Thank you, Mr. Chairman. I have been here so long I had forgotten about it. Anyway, thank you for holding the hearing. Gentlemen, thanks for being here. Secretary Prosch, the Army is having big problems, as you were just talking to Ms. Davis about, SRM and BOS funding. The Army's 2006 request will fund only 72 percent of BOS requirements which are typically must-pay bills. These accounts must be funded at approximately 90 percent in order to maintain base services.

I am aware that the Army is in the process of identifying ways to fund BOS at 90 percent in 2005 and 2006, but meeting this re-

quirement would require as much as $1.8 billion in additional funding for BOS.

How will you meet the 2005 and 2006 goal, and why does the Army continue to fund BOS at levels far below spending requirements? Question number one.

Number two, I am also aware that the Army's budget for 2006 funds SRM at only 91 percent, short of the 95 that DOD has as a goal. As you know, SRM accounts that are regularly utilized as bill payers for BOS requirements generated 400 unheated buildings at Fort Bragg and a lack of SRM funds. This is unacceptable. We have talked about it. Redefining heat in a building with a space heater or a stove is not the way to solve the problem.

I am aware the Army has already shifted approximately $400 million from SRM to BOS in 2005. Because SRM accounts are raided to pay BOS, in 2004, sustainment budget received less than 60 percent of requirements, and we are on a similar track in 2005.

Mr. Secretary, I would not buy a new vehicle or build a new building if I did not have funds to pay for the upkeep or the gas and the oil.

If your MILCON dollars are unwisely spent, there is no way to sustain the facilities. How do you intend to fix this SRM funding deficit, both in short and long term?

And last but not least, Secretary Kuhn, if we have the time, the Air Force is embarking upon privatized housing. From what I hear it is going very well. As you know, we have a successful program at Fort Bragg in its third year. At such installations as Pope and Bragg where there is already a privatized housing program, to what degree are you working with the other service and existing developers to ensure a seamless and uniform housing program to all service members which is really working well?

Thank you.

Secretary PROSCH. Sir, let me start off. Our goal is to work closely with OSD to try to get this model to where we do fund SRM and BOS at the right level. The Army has historically underfunded BOS and SRM. Our installations have been the bill payer too long.

Our Secretary and our Chief two weeks ago have made a bold policy change. They said that in some ways our socks do not match. We say that the quality of life and that infrastructure is key, and so we need to go ahead and get on with doing that. And they have made the decision starting in 2005 to fund our base operations support and our sustainment at 90 percent.

So we are going to do that this year, we are going to do that in the 2006 budget, and we pledge next year to go ahead and work this up-front, as we should be doing.

We thank you for all your support at Fort Bragg. We did have a bad cold spell there with over 400 buildings without heat. As of yesterday, 45 of those buildings are without heat. We will get them fixed in the next three weeks, and we pledge to take care of our soldiers and our facilities, sir.

Secretary KUHN. If I could answer your question on the housing privatization at Pope Air Force Base, we had originally looked at Pope as a stand-alone housing privatization project because of the basic allowance for housing. Its financials placed it in doubt as to whether it could be economically feasible.

So we have now grouped Pope Air Force Base, Andrews Air Force Base here in Maryland and MacDill Air Force Base in Florida in a group of three that we will be going our in early 2006 with the RFP asking for bids on all of those as one group. And then we plan to award that in early 2007.

Mr. HAYES. Thank you, Mr. Secretary, and I appreciate those comments. It has been very, very successful for the folks in uniform.

Mr. Prosch—and welcome back, Phil, as well—I appreciate the high level of awareness that you have and the commitment to fixing it. Is there any kind of market we can lay down on the table to show that for sure this is going to take place this time?

Secretary PROSCH. Yes, sir. We have our mid-year review coming up here toward the end of March. Why don't I promise to come see you and the good chairman and tell you how we are going to realign our funds from different bins to make sure that the base support is funded properly?

Mr. HAYES. Appreciate that. And bring the money, we will be glad to see you. [Laughter.]

Mr. HEFLEY. Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman. Appreciate you all being here. I will get the advertising out of the way to start out with. Secretary Prosch, I know you know that Stewart and Benning are ready to welcome any of the 10 brigades you want to send that way. And Warner Robins is already a multi-service, multi-mission facility. So that takes care of the advertising.

Secretary Kuhn, in your testimony, you make reference to the Air Force's commitment to be recapitalizing on a 67-year schedule. That would be about 1.5 percent of your current capital. You say that in the sustainment budget you are at 95 percent this year.

Secretary KUHN. That is correct.

Mr. MARSHALL. You say that you have fallen short on the balance of the recapitalization and modernization——

Secretary KUHN. And restoration and modernization.

Mr. MARSHALL. Restoration and modernization. You are at 173 and you say that by 2006—no pardon me, 2008, two years from now, the backlog will be 9.8 billion. Assuming that the recapitalization—and I have heard what Secretary Grone said where we have gone through seven theories already and we are into our eighth as far as this sort of issue is concerned—but assuming the Air Force's commitment to a 67-year schedule, that is 1.5 percent, what is 1.5 percent of our current capital? What should we be spending right now, on average?

Secretary KUHN. On average, in restoration and modernization? In the 2006, like you said, we have the $2 billion for sustainment and——

Mr. MARSHALL. And 173.

Secretary KUHN [continuing]. And 173. And in restoration and modernization to reach the recap rate in 2008, we will have to get to just a little under $800 million, and we have budgeted for that to hit the 67 recap in 2008. I realize that——

Mr. MARSHALL. You have got in your testimony a description what you call a $9.8 billion shortfall as of 2006. Maybe I am misreading this. I do not think I am. It is on page four.

Secretary KUHN. I am going to have to go back and look at that.

Mr. MARSHALL. It says, "The restoration and modernization backlog is projected to grow to nearly $9.8 billion in 2006."

Secretary KUHN. I am not sure that is necessarily associated with how we reach the recap rate as to what we think needs to be funded in those programs. I think we have a ways to go. We are going to have to come out of a little bit of a deeper valley than we thought, but we have the money into the President's budget in the future years, and we still believe that we are on goal to hit 67-year recap, not only in year 2008 but in the years thereafter.

Mr. MARSHALL. We had a huge problem with recapitalization of the quarters, housing stock for soldiers, airmen, Marines, sailors, and at some point prior to my tenure we made the decision to have private funding, recapitalization and then lease, which effectively is just borrowing money and adding to our debt. But it inures to our benefit right now because we get a whole bunch of money that we can invest, and, consequently, we have a nice new housing stock that is available for these soldiers.

Secretary KUHN. That is correct.

Mr. MARSHALL. Have we considered doing the same thing with regard to our commercial capital stock? I toured Robins on Saturday, some 1940 warehouses that were converted to office space and are now, what is that, 65 or 67 years old, pretty sorry shape, housing about 4,000 people who are doing support services for our efforts in Iraq and Afghanistan and in pretty bad circumstances.

The cost to just fix that with a new building would be in the neighborhood of maybe $200 million, $300 million. I am sure we could find private individuals willing to do it and lease it back to us.

Secretary KUHN. I think we are trying to do just that through a concept that has been available in the law to us in recent years, called the enhanced use lease, where the military departments now are authorized to use underutilized property to allow somebody outside of the fence, in the private sector, to do something, to build something on that underutilized land that insures to their benefit and for the use of that land to build something that inures to our benefit.

We are asking all of the commands to look at that, Air Force Materiel Command (AFMC) under which Robins falls, has not that I know of, but Hill Air Force Base in Utah is looking at using this authority over a period of probably 20 years to use private sector funding to gain facilities that would encompass perhaps as much as one-third of the installation through this enhanced use lease process. The Army is doing it as Walter Reed, and we are looking at many other ways of leveraging private sector dollars.

Now, there are issues associated with this—force protection issues, allowing people to come on to the base—but if all these are met and they are met to the satisfaction of the installation commander, we are definitely looking at ways of leveraging private sector dollars in our commercial activities, as we have in our housing privatization and utility privatization.

Mr. MARSHALL. Secretary Grone, I know I am out of time. I do not know whether you are the appropriate person to do this. I would certainly like somebody to come in and help me understand

the effective dollars and cents of these kinds of techniques used to modernize our stock.

It just seems to me that this is like buying a car, borrowing the money to do so, effectively adds debt, whether you call it a lease or you call it a loan, and if you combine the extent to which we are failing to recapitalize, so, for example, the $9.8 billion backlog, which, in essence, is a future obligation, with the obligations that are incurred as part of the leasing processes, I wonder to what extent we are just adding debt that is just not showing on the books.

Secretary GRONE. Well, Mr. Marshall, we will be happy to provide you a briefing and have whatever discussion you believe may be necessary.

I do want to clarify one item, though, if I might. The discussion about housing seemed to center, unless I misinterpreted it, on the notion that we would lease the housing back from the private sector. That is not what we are doing in housing privatization.

If it is an on-base housing area, in many cases we retain the fee simple title and we out-lease that land on a 50-year or longer lease to a private entity, which the financial markets treat as ownership. Off-base, it is not our land.

If we are conveying housing units into the stock, we convey those as part of the deal, they become the property of the developer, and the individual service member chooses whether to execute a lease with that developer. The government does not lease the housing back from the private developer. The risk is on the private sector.

What this program gives us the ability to do is give our people better housing options. They are competitive with the private marketplace, but in the sense that it builds up a financial liability with all that implied from some sort of a leasing arrangement, as one might traditionally think about it, it is certainly not that, although it is understandable why one might draw that conclusion. But we do not lease the housing back for our people. Our people make those individual choices themselves.

Mr. HEFLEY. Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman. We have a vote here, so I am going to try to be relatively brief.

Real quick, over the past few BRAC closures, how much savings have we recognized up to this point, do you know? I have not seen any number. Ballpark.

Secretary GRONE. The Government Accountability Office and every audit that we have seen suggests that the annual recurring savings from after implementation of all prior BRAC decisions is approximately $7 billion a year, with $17 billion that we saw through the implementation of the prior 4 rounds of BRAC. But that is $7 billion is an annual recurring savings based on decisions that were taken in those four rounds.

Mr. RYAN. Great. Thank you very much.

One of the questions I have, and I am not going to plug my base directly, the 910th Airlift in Youngstown, I guess I will do it directly. [Laughter.]

I am not going to let everybody else do it and then I am not going to do it.

One of the questions and the concerns that I had is as we are moving troops back to this country and we are closing down bases

in the new post–9–11 threats that we may and maybe the role that some of these air bases or military installations are going to play for homeland security. And one of the concerns is we may close down a base that may be able to somehow help us down the line that we may not see just yet.

What role throughout the closure process will location play? I mean, we are in Youngstown, Ohio. We are 500 miles from two-thirds of the country. We have the only fixed wing aerial spray unit, and there are things that we are working on for biopreparedness with Kent State where that aerial spray unit may play a role down the line in some kind of homeland security issue. Is location considered in the process?

Secretary GRONE. Certainly, location is a key component of the assessment process. The availability of land, air, sea assets, associated facilities is part of the selection criteria upon which the Secretary must make his judgment to develop his recommendation.

From a homeland defense, homeland security perspective, homeland defense is a mission of the Department, and we certainly take that mission into account as we build a basing laydown and infrastructure for the future. We are doing that.

So, certainly, all of those factors are a part of the process. Without being able to be specific about any given location, certainly, that is an obvious part of—an overt part of the selection criteria and a part of the assessment process internally.

Mr. RYAN. Thank you. One final——

Mr. HEFLEY. Very quickly, Mr. Ryan, or we could come back if you would like to come back and finish up your testimony.

Mr. RYAN. Yes. I will get you and let Mr. Taylor go.

Mr. HEFLEY. Can the witnesses stay? Okay. Evidently, we just have one vote, so we will go try to do it quickly and come back.

The committee stands in recess.

[Recess.]

Mr. HEFLEY. The committee will come back to order, and since Mr. Ryan is not here right now, we will go to Mr. Taylor.

Mr. TAYLOR. Thank you, Mr. Chairman. I am reading with great interest the environmental hurdles of building the outfield that is described in Secretary Penn's remarks in North Carolina. Secretary Penn, if Cecil Field were still part of the Navy's inventory, would you have to be doing all that in North Carolina?

Secretary PENN. I honestly do not know, sir, but I know I love Cecil Field.

Mr. TAYLOR. I think the correct is answer, no, if Cecil Field was still in the inventory, we would not be looking for additional bases. Why was Cecil Field closed? Did the local community ask us to close it or was that the result of a base closure decision?

Secretary PENN. I believe that was the result of a base closure, sir.

Mr. TAYLOR. Secretary Penn, while I have you, I just on Saturday visited—and I realize you have only been on the job a couple of days, but on Saturday I visited some brand new family housing built to take care of the sailors at Homeport Pascagoula. And when I say brand new, they have not even been occupied yet.

With this round of BRAC, should Pascagoula be marked for closure or mothballing or whatever, what becomes of that housing?

And the reason I ask is the housing is located almost equal distance between Homeport Pascagoula and Keesler Field in Biloxi, Mississippi.

What I am curious is, is there a mechanism where another branch of the service could ask of that, because the absolute last thing I want to see is this housing built at taxpayers' expense either allowed to fall into disrepair for lack of use or, worse yet, be sold for pennies on the dollar in some brother-in-law deal that just makes all of us look bad.

Secretary PENN. No, sir. It is PPV. It is up to the partner as to what happens to the house.

Mr. TAYLOR. If I am not mistaken, this is not that. I think this was actually paid for with taxpayer funds. There was some talk at some point of transferring it over to a public-private venture, but the word I got on Saturday that it was actually taxpayer money that built that.

Secretary PENN. Sir, I will take that for the record and get back to you.

[The information referred to was not available at the time of printing.]

Mr. TAYLOR. Would you?

Secretary PENN. Pleasure, yes, sir.

Mr. TAYLOR. Secretary—and I do not mean any offense—Prosch?

Secretary PROSCH. Prosch.

Mr. TAYLOR. Okay. Recently returned from Roosevelt Roads to see the—again, do not say this happily—to see that base being shut down. I think it is a mistake. I did not realize it was buried in the authorization bill a couple years ago, but I voted for it, and therefore I share the responsibility.

It is my understanding that not only did that language require the closing of Roosevelt Roads, which, again, I think is a mistake, but has pretty well put a moratorium on all military construction on the island of Puerto Rico.

A, is that accurate, and, B, what sort of problems, what sort of unintended problems is that creating for the Army down there that maybe we can correct in this year's bill?

Secretary PROSCH. Let me talk about that. Thank you for the opportunity to discuss that, then I am going to defer to my reserve colleagues in the rear here.

We have got about 4,500 reserve soldiers in 48 units, in 14 different locations across the island, and if you look at the number of soldiers and the total population per capita, Puerto Rico is as high as any state we have got for serving their country. And so it is important that we try to sustain the facilities that we use.

Overcrowding can be relieved through the use of military construction funds, and the problem we have is that this moratorium was imposed. And you will see in the Army-recommended and OSD-approved legislation some relief from this moratorium, because we think it is important that we be able to lift this moratorium and be able to drive on with our construction.

The guard wants to put their headquarters at Fort Buchanan. Fort Buchanan could be a satellite for consolidation of a lot of outlying reserve units. And so it would be very important if we could get your support on that.

And I would just briefly like to ask my reserve and guard colleague to my rear to comment on that.

General PROFIT. Yes, sir, if I could. First of all, the moratorium applies only to Fort Buchanan, but having said that, Fort Buchanan is the centerpiece of an island-wide answer to facilities in Puerto Rico. That also includes an enclave at Naval Station Roosevelt Roads, Camp Santiago and armories and reserve centers throughout the island.

Frankly, sir, you asked about the impact. The impact is that it is not very helpful for us to be able to provide facilities for quality of life and quality of service for soldiers, sailors, airmen, Marines, coastguardsmen that frankly is commensurate with their service to the nation. And we would ask your support to lift the moratorium.

Mr. TAYLOR. Mr. Chairman, if I may.

Secretary Penn, one thing I did notice at Roosevelt Roads—I am a scrounger by nature, I literally built a boat out of other people's junk, of course, it looks like it—but one of the things that I noticed is that at Roosevelt Roads—I come from hurricane country. Loss of power is something we anticipate every August and September, and therefore almost every community one of the things they really place a premium on are generators for the courthouse, for the jail, for the police and fire departments.

One of the things I did notice at Roosevelt Roads, on the good side, is that the Navy had done a very good job of pulling almost every stick of furniture out of there, because I did not want to see anything wasted.

On the not so good side, and I do want to compliment the young lieutenant commander who rode me around that Saturday, who gave up his Saturday and did a great job, one of the things I did notice is there were probably 100 generators of various capacities, some of them in the hundreds of kilowatts, that the Navy had planned on leaving behind.

I would ask that you take another look at that. I think that given that local communities can use them, given that the guard and reserve, particularly engineering battalions have left behind in Iraq almost all of their generators, I would hope that the Navy, again, using our great CBs, using the reserve capacity that you have, using possibly the Puerto Rican National Guard engineering units, I hate to see that transferred to the next person who buys those buildings. They are going to get a bargain anyway. They do not need a bargain plus that.

Secretary PENN. Yes, sir. Yes, sir.

Mr. TAYLOR. And that was my request of you. If you could follow up on that.

Secretary PENN. I will follow up on that, sir.

[The information referred to was not available at the time of printing.]

Mr. TAYLOR. And, quite frankly, if you can find no one else that is interested in it, I would certainly like the opportunity to see if I cannot get the Mississippi National Guard down there.

Secretary PENN. Yes, sir.

Mr. TAYLOR. Okay.

Secretary PENN. We will get back to you.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. HEFLEY. So far as lifting the moratorium, I would like to say just as one member of this committee, I would not put a dime of military money back into Puerto Rico if I had my way after they shoved us off the island, which we really needed, which had a military necessity for us to use, Vieques. And we got shoved out because of local politics and politics up here, Gene.

And I think it is a darn shame. We needed that facility, and it was not hurting anybody. But it became a political and emotional thing, and I think we should have closed Roosevelt Roads and everything else we have got down there.

So you do not have to come lobby me on that now.

Mr. Ryan.

Mr. RYAN. Thanks, Mr. Chairman, I appreciate it.

One of the questions I had was one of the criteria for the BRAC is the economic impact. If you could just maybe explain that a little bit, how broad that is. My concern is that an area like I represent that has a high unemployment rate, is very poor area, losing a base that employs 2,000 people and has $110 million economic impact, losing that to us means a lot more than if that base was closed down in an area that was doing very well.

And you do not have to give me the exact stuff but just what is your sense, because I think in the long run it may cost the government more money to—the government as a whole more money to close down that base and that area. It may save the military money, but it may have an overall cost to the taxpayer.

Secretary GRONE. Well, sir, I take your point, and you are certainly accurate that we do have to take into account the economic impact of the Secretary's recommendations on communities. How precisely we are going to asses that, the weight of it, the breadth of it, and how we are going to do that is not something I am in a position to discuss today.

Suffice it to say that all of that material will become available to the Congress and to the Commission on the 16th of May for both entities to exercise their respective responsibilities under the statute. But it is just simply not something, because it is for the internal assessment process at this point that I cannot detail at this time.

Mr. RYAN. Let me just encourage you, because from our position, although we are on this committee, we also vote and represent other interests as well. And to save money in the military budget, to get the taxpayer more money because of the social need that would be made there I think is very important.

So thank you very much. You guys do a great job, and I really appreciate your time.

Thank you, Mr. Chairman.

Mr. HEFLEY. Mr. Taylor, you have a follow-up.

Mr. TAYLOR. Yes, sir.

Gentlemen, I—and, Phil, you are a great guy, we go way back on this issue. You are for it, I am against it, and unfortunately your side won; there will be another round of BRAC. The number that was tossed out repeatedly by the Secretary of Defense and others was somewhere in the neighborhood of 23, 24 percent excess capacity.

I look out and I see the simultaneous cancellation or reduction or delay in the purchase of the DDX, the tall combat ship, the F–22, the V–22, C–130 Js, and I know I am missing a couple. I happen to believe that reflects—and then I have talked to friends within the services who tell me how their O&M accounts are being raided. I happen to believe that that reflects the hidden costs of the war in Iraq where we are just not being straight with the American people as to the true cost of this. And so in order to do that war right, and I hope we are doing it right, we are creating some future vulnerabilities over here.

My fear is that now that we have given the Department authority for another round of BRAC, that it is not 24 percent of capacity, that it is actually much worse than that, because you are looking for some additional savings to cover the cost of the war in Iraq. What guarantees do we have, if any, that this round of BRAC will not end up closing one base out of three or two bases out of five, as far as a percent of total capacity?

Secretary GRONE. Mr. Taylor, the best way for me to answer that question at the present time is to say what that number is and what it is not.

That number was an estimate of excess capacity based on baseloading construct which was the best way that we could judge capacity at that time, absent an actual BRAC analysis. The Congress asked on two occasions, once in 1998 and once last year, for reports to be delivered that assessed balance of excess capacity available to the Department.

In the 1998, the number across the entirety of the Department came out to 23 percent. The number in the last report to Congress came out at 24.

I think we have gone to great lengths to say, and I have said repeatedly, that that does not necessarily mean that one base in four will close. The entire thrust of base realignment and closure or the mandatory direction from the Congress, not a matter of discretionary policy choice by the Department, but as a matter of law is that the military value of our installations and the missions that they support is the primary consideration for base closure and realignment recommendations. Not savings, not targets for capacity reduction, but the military value to the national defense based on a 20-year threat assessment and force projection and also founded upon the selection criteria.

I cannot give you any assurances with regard to specific numbers, because the Secretary has not made his recommendations clear. What I can say is that we have set no internal or external targets with regard to savings projections that have to be achieved with regard to this BRAC. We take very seriously our obligations under the statute to ensure that military value is the highest criteria by which we make these judgments.

We believe there are savings to be had, specifically for the kinds of things that you have spoken about that accrue from getting rid of excess capacity that we no longer require. Our track record demonstrates that, and I know we have had disagreements on that point, but, clearly, there are savings to be had from offloading infrastructure that is not required for the mission and not required

by the Department for any purpose. Those funds can be used for a better and higher military use.

So all I can assure you today is that we are doing the best we can to develop options for the Secretary for his consideration and ultimately his recommendation that have military value as that best and highest criteria within the process and that we have not established any arbitrary targets for closure and realignment, and we certainly have not set any internal goals for simply closing bases for the sake of achieving a budgetary target. That is not what we are doing.

Mr. TAYLOR. Again, to the point, the number that was thrown out is 24 percent excess capacity; you have confirmed that. Is there anything to limit it from being 30 percent? Is there anything to limit it from being 50 percent?

Secretary GRONE. The limitation is the best military judgment of the uniformed and civilian leadership of the Department.

Mr. TAYLOR. Okay. But in simplistic terms, there is really nothing to stop this BRAC from closing every other base in America if they choose to.

Secretary GRONE. Congress provided no baseline, and it provided no ceiling to the scope of the analysis, specifically, because it asked us to look at it from the perspective of military value.

Mr. TAYLOR. Just wanted to get that on the record.

Thank you, Mr. Chairman.

Mr. HEFLEY. Thank you, Mr. Taylor. Mr. Taylor has had two continuing themes when we talk about BRAC. One is Cecil Field we have already talked about, and we did screw up there, I think. We should not have lost that. That is one of the mistakes of the BRAC process.

And the other is that we get value for what we give up. And that was part of the original formula when we talked about the BRAC thing. Mr. Armey brought the BRAC procedure to the floor and we talked about in our calculations about how much money we were going to save and what we were going to do with it and so forth, that we would actually sell these properties and they would bring in money, and we would use that to make better some of the installations we had. And that has worked to a greater or lesser extent over the years, most lesser extent, I think.

What is your sense, Phil, that in terms of getting value in this BRAC process, because there are some places that have very little economic value. They are good for a base and they are good for not much else. And there are some places with enormous value. The one, Gene, that you referred to many times is that island in New York and so forth—what?

Mr. TAYLOR. Governor's Island.

Mr. HEFLEY. Governor's Island, which has enormous value or anywhere around San Diego or Norfolk or Jacksonville would have enormous value.

So do we plan to give this stuff away mostly or do we plan to try to do what we can to realize value from it?

Secretary GRONE. Well, Mr. Chairman, we are taking a very good hard look at lessons learned from the past from prior rounds of BRAC and taking into account the comments that we received from a number of sources to include members who have expressed con-

cern about the disposal process over the years, including members of this committee.

Recently, I have spoken about five fairly broad principles through which we would entertain and manage our policy process for base reuse after the decisions are rendered and assuming they are enacted into law.

First, we want to do whatever we can to expedite the movement of the mission. It is in the interest of the Department to have realigned missions or missions moving from a closed installation to their ultimate destination as expeditiously as we can.

That is certainly in the interest of military efficiency and effectiveness, and it certainly leads to the second principle, which would be that we must do what we can, and we will do what we can, to expedite the beneficial reuse of a closed military installation, to put it back on the local tax rolls so it can provide the kind of economic benefit to the local community that it can.

In many cases, those processes have taken a significantly long time for a number of reasons, and we are looking at those reasons very carefully to see what we can do to expedite it.

Fundamentally, what we seek to do as a third principle is to implement a mixed toolkit approach. And by that, I mean all the authorities that are currently available to the military departments, be it public sale, public benefit conveyances, economic development conveyances, whatever the package of authorities that is necessary are all on the table, and in many cases we could have a cookie-cutter approach but it would not be very effective.

And, quite frankly, in the early part of the first rounds of BRAC, we probably overestimated both our capacity and our ability to execute public sale in an effective way. Over the years, that pendulum tended to swing very much to the other direction, much to the consternation, I think, of a number of players in the process.

What we are trying to do is rebalance that equation, recognize that we have some powerful authorities at our disposal but that we have to have all of the authorities at our disposal in order to this process to be effective.

Within that mixed toolkit, certainly, we do want to rely as a fourth principle more on the market. So to the extent that we have assets that are valuable in the public marketplace, we should seek and will seek to sell those where we can, assuming that they are not the subject of a public benefit conveyance or other process. But we do want to try to maximize value in return for these parcels where it is appropriate, and it will be appropriate in a number of venues.

Our ability to do that, both to execute the mixed toolkit and to maximize value, relying on the market, is entirely dependent on the fifth principle, which means we cannot execute any of this without a very strong partnership with state and local government, those who have zoning authority, state environmental regulators, state and local development authorities in the private sector to do what is necessary to develop a local redevelopment plan or base reuse plan that can be effectively and expeditiously implemented.

So it is would not be a process of we will have a parcel property and we will stand off to the side and try to sell it, as some have suggested we might do. For this process to be effective, we have to

be involved in an aggressive way at the local level, with affected parties, to ensure that we get the best plan developed and that can provide us where we are going to use public sales the maximum value for property.

The Navy has one that recently at El Toro, they have done it and are postured to do it at Naval Station Roosevelt Roads, using a mixed toolkit approach, relying on public sale where it is viable, relying on strong partnership with state and local government and the local redevelopment interest to make sure that we do have a package that can, in the event we do have a base closure, put ourselves in the best position possible to have economic reuse in the most expeditious way we can.

Mr. HEFLEY. Thank you. Are there any other questions?

If not, we want to thank you again for being with us. Your testimony was very, very helpful.

The committee stands adjourned.

[Whereupon, at 4:25 p.m., the subcommittee was adjourned.]

A P P E N D I X

March 15, 2005

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

MARCH 15, 2005

HOLD UNTIL RELEASED
BY THE COMMITTEE

STATEMENT OF

MR. PHILIP W. GRONE
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)

BEFORE THE SUBCOMMITTEE ON
READINESS
OF THE
HOUSE ARMED SERVICES COMMITTEE

March 15, 2005

Mister Chairman and distinguished members of this Subcommittee, I appreciate the opportunity to appear before you today to address the President's Budget request for fiscal year 2006 and the plan of the Department of Defense to improve its infrastructure and facilities.

The Department of Defense recognizes the long-term challenges associated with its infrastructure strategy. The Department has developed a strategy and several tools to address these challenges. The President's Management Agenda recently added the stewardship of federal real property as a new initiative. The Department is a full participant in the Federal Real Property Council established by Executive Order 13327.

Working in full cooperation with the military services and other Defense components, the Department set out in 1997 to build a corporate-wide inventory of assets. The idea was and remains that the Department's funding requirements for installations is a function of the assets currently on hand and planned for the future. Hence, an accurate inventory and a forecast of those assets are fundamental to determining and assessing budget requirements. The Department is continuing to improve its inventory process and is working extensively in the interagency process to support a more useful federal inventory that can be used for management purposes.

In 1998, the Department set out on a six-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, we concluded that effort by exceeding our target - removing a total of 86 million square feet. As part of a continuing effort to dispose of unneeded facilities, the Department recently completed a new survey of demolition requirements.

In 2001, the Department issued its first ever Defense Facilities Strategic Plan. In September 2004, we issued a comprehensive, capabilities-based, and performance-oriented Defense Installations Strategic Plan. Our new plan begins to integrate more fully environmental management systems, safety, and occupational health into a comprehensive approach to asset

management. The 2004 plan addressed recommendations made by the Government Accountability Office (GAO) and was approved by OMB as being consistent with the guiding principles of the Federal Real Property Council in meeting the objectives of the President's Management Agenda.

Global Posture Realignment

While the Department addresses better business practices, we also are working to realign our infrastructure to deal effectively with military transformation and 21st Century threats. The Defense posture of the past 50 years reflects the Cold War strategy, with US forces forward deployed primarily to fight near where they were based. Today's environment requires more agile, fast and lean forces able to project power into theaters that may be distant from where they are based. This agility requires not only a shift in military forces, capabilities and equipment, but also a new basing strategy.

Last fall, the Department completed a two-year comprehensive review of its global posture and basing strategy, which will result in the most profound restructuring of U.S. military forces overseas since the end of the Korean War. This review was conducted with extensive participation by the Combatant Commanders, the Joint Chiefs of Staff, and our interagency partners. We provided the Congress with a copy of the report in September 2004.

The new posture will enable the Department to respond more quickly to worldwide commitments and make better use of our capabilities by thinking of our forces globally. In terms of "footprint", we will tailor our forces to suit local conditions while strategically pre-positioning equipment and support. We anticipate realigning or closing a number of large permanent bases in favor of small and scalable installations better suited for deployments to trouble spots. This

will also reduce friction with host nations. For example, removal of the US Air Expeditionary Wing from Prince Sultan Air Base should help improve our relations with Saudi Arabia, and relocating US forces out of densely-populated Seoul, Korea, to hubs further south will resolve problems with the Korean public while bolstering our military capabilities on the peninsula.

Senior officials of this Department and the Department of State have already begun the process of consulting with our friends and allies around the world to incorporate their input into our plan. We recognize that our allies are sensitive to changes in our overseas posture, and we will continue to consult with them as we make final decisions and begin executing the strategy. We will continue to consult with Members of Congress on our plan and will seek your support as we implement these far-reaching and enduring changes to strengthen America's global defense posture.

Since some overseas personnel will return to the United States, global posture changes will influence BRAC recommendations that will be announced in May 2005. Even though global posture changes will be executed over several years and will continue to be adjusted as strategic circumstances change, the Department will incorporate projected overseas posture changes into the BRAC process.

BRAC 2005

The domestic BRAC round and the global posture review are key elements that support transformation. A well supported, capabilities-based force structure should have infrastructure that is best sized and placed to support emerging mission requirements and national security needs. DoD must configure its infrastructure to maximize both warfighting capability and efficiency. Through BRAC and the global posture changes the Department will support the

warfighter more effectively and efficiently. The Secretary will provide his recommendations for domestic closures and realignments to the Commission and Congress by May 16th as required by the BRAC 2005 statute.

From a domestic perspective, the Department recognizes it has an obligation to assist communities impacted by BRAC 2005. The Defense Economic Adjustment Program will include assistance for communities to plan for the civilian redevelopment of available real and personal property; and implement local adjustment actions to assist impacted workers, businesses, and other affected community interests. The Department will work to partner with affected communities as we both seek opportunities for quick civilian reuse of former military installations. For communities engaged with installations that will receive new missions, we also recognize the importance of cooperatively planning to ensure our mission can effectively be stood up and supported.

MANAGING INFRASTRUCTURE

The Department currently manages nearly 517,000 buildings and structures with a plant replacement value of over $650 billion, and over 46,000 square miles of real estate. We have developed models and metrics to predict funding needs and have established goals and performance measurements that place the management of Defense infrastructure on a more objective, business-oriented basis.

Infrastructure Investment Strategy

Managing our facilities assets is an integral part of comprehensive asset management. The quality of our infrastructure directly affects training and readiness.

Facilities sustainment, using primarily operations and maintenance-like[1] appropriations, funds the maintenance and repair activities necessary to keep an inventory in good working order. It includes regularly scheduled maintenance and major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle of facilities. Sustainment prevents deterioration and preserves performance over the life of a facility.

To forecast funding requirements for sustainment, we developed the Facilities Sustainment Model (FSM). FSM uses standard benchmarks drawn from the private and public sectors for sustainment costs by facility type and has been used to develop the Service budgets since fiscal year 2002 and for several Defense Agencies beginning in fiscal year 2004.

Full funding of sustainment is the foundation of our long-term facilities strategy, and we have made significant progress in achieving this goal. The Department increased funding for facilities sustainment consistently from fiscal years 2002 through 2005, sustaining facilities at an average of 93 percent of benchmarks. In the Fiscal Year 2006 budget request, the Department shows a slight decrease in the department-wide rate to 92 percent. The budget request, however, is an improvement upon the plan for the FY 2006 contained in the FY 2005 FYDP, which funded facility sustainment at 90 percent. Our priorities have not changed and with the support of the Congress our goal remains to reach full sustainment by FY 2008.

Restoration and modernization, collectively termed recapitalization, provide resources for improving facilities and are funded with either operations and maintenance or military construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident or other causes. Modernization includes alteration of facilities solely to implement new or higher

[1] Includes O&M as well as related military personnel, host nation, and working capital funds.

standards, to accommodate new functions, or to replace building components that typically last more than 50 years.

Recapitalization is the second step in our strategy. Similar private sector industries replace their facilities every 50 years, on average. With the types of facilities in the Defense Department, engineering experts estimate that our facilities should have a replacement cycle of about 67 years on average. In FY 2001, the Department's recapitalization rate stood at 192 years. This budget request supports a recapitalization rate of 110 years, and we remain committed to achieving our 67 year recapitalization goal in FY 2008.

Sustainment and Recapitalization Request
(President's Budget in $ Millions)

	Fiscal Year 2005 Request	Fiscal Year 2006 Request
Sustainment (O&M-like[2])	**6,515**	**6,529**
Restoration and Modernization (O&M-like)	**1,321**	**1,008**
Restoration and Modernization (MilCon)	**3,161**	**3474**
TOTAL SRM	**10,997**	**11,011**

As a key component of our facility program, the Military Construction appropriation is a significant contributor to the Department's comprehensive approach to asset management practices. The Fiscal Year 2006 Department of Defense Military Construction and Family Housing appropriation request totals $12.05 billion. This budget request will enable the Department to transform in response to warfighter requirements, to enhance mission readiness, and to take care of our people. We do this, in part, by restoring and modernizing our enduring facilities, acquiring new facilities where needed, and eliminating those that are excess or obsolete.

[2] Includes O&M as well as related military personnel and host nation.

Comparison of Military Construction and Family Housing Requests
(President's Budget in $ Millions – Budget Authority)

	Fiscal Year 2005 Appropriation	Fiscal Year 2006 Request
Military Construction	4,745	5,284
NATO Security Investment Program	166	207
Base Realignment and Closure	246	2,258
Family Housing Construction/Improvements	1,622	2,020
Family Housing Operations & Maintenance	2,547	2,220
Chemical Demilitarization	81.9	0
Homeowners Assistance	0	0
Family Housing Improvement Fund	2.5	2.5
Energy Conservation Investment Program	50	60
TOTAL	**9,460**	**12,052**

Improving Quality of Life

At the outset of this Administration, the President and Secretary Rumsfeld identified elimination of inadequate family housing as a central priority for the Department and set an aggressive target of 2007 to meet that goal. Greatly expanded use of the privatization authorities granted under the FY 1996 Military Housing Privatization Initiative has enabled achievement of that target at U. S. based installations where those authorities apply. Sustaining the quality of life for our military families is crucial to recruitment, retention, readiness and morale. The FY 2006 budget funds elimination of all inadequate domestic family housing by 2007, and eliminates remaining inadequate houses overseas by 2009.

DoD policy relies on the "community first" (private sector) to provide quality housing. Only when the private market demonstrates that it cannot supply sufficient levels of quality housing does the Department provide housing to our military families using privatization as its primary option followed by government-owned and leased housing. For example, we address

our housing needs overseas through military construction and leasing in the absence of privatization authority.

To ensure the Department is making the best investment decisions in determining the appropriate level of housing, the government provides a single and consistent methodology for calculating the requirement which was introduced in January 2003 and is being extensively utilized by the Services. Currently, 73 percent of military families reside in privately owned housing, including 11 percent in privatized military housing and 27 percent in government-owned housing areas.

The Department has skillfully used privatization to more quickly eliminate inadequate housing and to provide additional housing where shortfalls existed. As of February 2005, the Department has awarded 43 projects. This includes over 87,000 military family housing units, which is a 58 percent increase since January 2004. DoD policy requires that privatization yield at least three times the amount of housing as traditional military construction for the same amount of appropriated dollars. The 43 awarded projects have permitted the Department, in partnership with the private sector, to provide housing for about $767 million in military construction investment. The same level of construction activity would otherwise have required over $11 billion if the traditional military construction approach was utilized. This reflects an average ratio of over 14 to 1, well exceeding program expectations.

The Department's privatization plans in the FY 2006 budget will privatize 84 percent of its domestic family housing inventory, or roughly 185,000 units privatized by the end of FY 2007. By the end of FY 2006, we will have privatized 172,400 housing units.

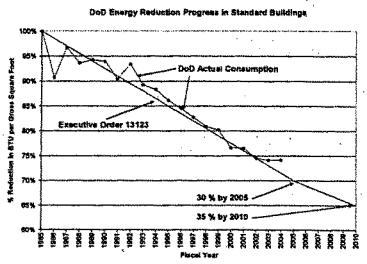
For fiscal year 2006, the Department requests $4.243 billion in new budget authority for family housing construction and operations and maintenance:

- $1.9 billion to construct 3,447 new/replacement units and improve 3,584 existing units.
- $2.2 billion to operate and maintain approximately 123,452 government-owned family housing units, and lease another 26,281 units worldwide.

Funding to support the privatization of family housing is programmed and budgeted in the family housing construction appropriations and is transferred to the DoD Family Housing Improvement Fund (FHIF) when the privatization projects are executed. The FY 2006 construction account requests a total of $281 million in funding for privatization. Of this amount, approximately $182 million is anticipated to be transferred to the Family Housing Improvement Fund during FY 2006 along with $428 million in previously appropriated construction funds. This $610 million will be used to finance the privatization of approximately 34,964 units.

Utilities Privatization and Energy Management

The Department seeks to reduce its energy consumption and associated costs, while improving utility system reliability and safety. The Department has developed a comprehensive energy strategy and issued new policy guidance that will continue to optimize utility management by conserving energy and water usage, improve energy flexibility by taking advantage of restructured energy commodity markets when opportunities present themselves, and modernize our infrastructure by privatizing our deteriorated and outdated utilities infrastructure where



economically feasible. The comprehensive energy strategy supports the use of meters to manage energy usage at locations where the monitoring justifies the cost of installing, maintaining and reading the meter. Metering in itself does not save energy, however, use of meters can be beneficial to determine accurate billing, perform diagnostic maintenance, and enhance energy management by establishing baselines, developing demand profiles, ensuring accurate measurement for reporting, and providing feedback to users.

DoD, as the largest single energy consumer in the Nation, consumes over $2.8 billion of energy per year. Conserving energy and investing in energy reduction measures makes good business sense and frees up resources for sustaining our facilities and for higher DoD priority readiness and modernization. Recent dramatic fluctuations in the costs of energy significantly impact already constrained operating budgets, providing even greater incentives to conserve and seek ways to lower energy costs. These include investments in cost-effective renewable energy sources or energy efficient construction designs, and aggregating bargaining power among regions and Services to get better energy deals.

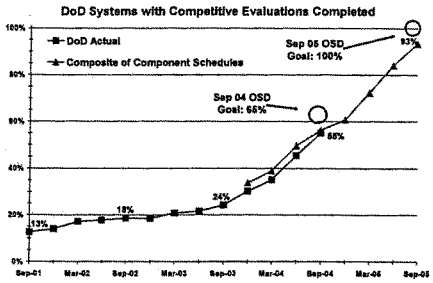
Conserving energy in today's high-priced market will save the Department money that can be better invested in readiness, facilities sustainment, and quality of life. Our efforts to conserve energy are paying off; in FY 2004, military installations reduced consumption by 1.1 percent despite an 8.8 percent increase in the cost of energy commodities from FY 2003. With a 26.8 percent reduction in standard building energy consumption in FY 2004 from a 1985 baseline, the Department has deviated slightly from the track required to achieve the 2005 and 2010 facility energy reduction goals stipulated by E.O. 13123. This is mostly attributable to the lapse of Energy Savings Performance Contract (ESPC) authority which typically accounts for more than half of all facility energy savings. However, with ESPC authority reauthorized in the

FY 2005 National Defense Authorization Act, DoD has launched an aggressive awareness campaign and plan to get back on track to meet FY 2010 reduction goals.

DoD has significantly increased its focus on purchasing renewable energy and developing resources on military installations. The Department has increased the use of Energy Conservation Investment Program (ECIP) funds for renewable energy projects from $5M and $11M in FY 2003 and FY 2004, respectively, to $13M and $18M in FY 2005 and FY 2006, respectively.

The Department has a balanced program for energy conservation—installing energy savings measures using appropriated funding and private-sector investment—combined with using the principles of sustainable design to reduce the resources used in our new construction. Energy conservation projects make business sense, historically obtaining about four dollars in life-cycle savings for every dollar invested. The FY 2006 budget contains $60 million for the ECIP program to implement energy saving measures in our existing facilities.

To improve utility systems, the Department has reaffirmed its preference to modernize military utility systems through privatization. The DoD Utilities Privatization Program has made solid progress over the past two years. The Services have greatly simplified and standardized the solicitation process for obtaining industry proposals. Request for Proposal (RfP) templates were clarified to improve industry's ability to obtain private sector financing and manage risks. Of 2,601 utility systems serving the DoD, 463 systems have been



privatized and 733 were already owned by other entities. Over 950 systems are currently under solicitation as each Service and the Defense Logistic Agency continue aggressive efforts to reach privatization decisions on all systems.

Installations Support

The Installations Support function consists of two major programs: Installation Services (formerly referred to as "base operations support") and Facilities Operations (formerly referred to as "real property services"). The current budget request of $22.5 billion includes $16.8 billion for Installations Services and $5.7 billion for Facilities Operations in FY 2006. The Defense Installations Strategic Plan articulates the need to define common standards and performance metrics for managing Installations Support. The Department has initiated an effort to define and model each sub-function of Facilities Operations (utilities, leases, custodial services, snow plowing and the like) by fully utilizing commercial benchmarks. For the more diverse tasks within Installation Services, the Department has established a cross-Departmental working group to examine definitions and budget structures.

Range Sustainment

In concert with the President's August 2004 Executive Order "Facilitation of Cooperative Conservation" the Department has developed a program of Compatible Land Use Partnering that promotes the twin imperatives of military test and training readiness and sound conservation stewardship through collaboration with multiple stakeholders. The Executive Order defines "cooperative conservation" as actions that relate to use, enhancement, and enjoyment of natural resources, protection of the environment, or both, and that involve collaborative activity among Federal, State, local, and Tribal governments, private for-profit and nonprofit institutions and

other nongovernmental entities and individuals. The Department's Range Sustainment Program is fully consistent with the President's goals in this area. Section 2811 of the 2003 National Defense Authorization Act authorizes the Services to take a proactive role in developing programs to protect our installations and ranges from urban sprawl by working with states and non-governmental organizations to promote compatible land use through cooperative conservation efforts. This authority has enabled DoD to initiate the Readiness and Environmental Protection Initiative (REPI) – a multi-year program to sustain test and training space for our troops while simultaneously assisting in the protection of valuable habitat and open space. This program provides a lasting solution and a long-term framework for developing new policies, partnerships, and tools to assist communities and other interested stakeholders in executing compatible land use partnerships around our test and training ranges and installations, as well as work with our other federal landowners on cooperative conservation projects. In the coming years, military readiness will still require substantial resources, air, land and water areas where military forces can test and train as they would fight. It is imperative that we be able to posture our test and training infrastructure for transformational and sustainable operations.

The Department appreciates greatly the $12.5 million in FY 2005 funding provided by Congress to fund the REPI program, and the military Services are already executing critical projects in many states. A recent agreement to address encroachment at Fort Carson, Colorado, and to enhance regional environmental conservation is one example of this win-win approach. Other projects are under consideration in Hawaii, at MCB Camp LeJuene, North Carolina, and in California and Florida. In FY 2004, the Services implemented successful partnerships with state and Non-Governmental Organizations (NGOs) at locations such as NAS Pensacola (Navy and Escambia County), Camp Blanding (National Guard Bureau and State of Florida). These multi-

faceted conservation partnerships will ensure the long-term sustainability of test and training centers supporting the military mission. Thus, the Administration has requested $20 million for the REPI program for FY 2006 and we are in the process of refining the Service priorities for those funds. I have requested that the Services prepare and submit requirements associated with FY 2007 and out-years to support a long-term funding strategy for the REPI program. These compatible land use partnering efforts will become even more critical to our ability to protect and preserve our test and training missions as we enter our post-BRAC transformational environment. We look forward to participation in the White House Cooperative Conservation Conference later this year to find ever more innovative ways to work with others to help secure critical test and training ranges. I look forward to working with Congress to ensure our ability to fulfill the important programming requirements for these new efforts.

Safety and Occupational Health

The Department is aggressively supporting the SECDEF's priority to reduce mishaps in DoD by implementing SOH management systems and by making it a priority in our Defense Installations Strategic Plan. Our programs focus on continuous incremental improvement in Safety and Health, but we're also involved in implementing significant changes in safety through our partnership with the Under Secretary of Defense for Personnel and Readiness, who chartered the Defense Safety Oversight Committee (DSOC). Together, we are leading DoD's efforts to cut mishaps in half by the end of FY 2005. The DSOC, composed of senior leaders throughout the Department, is finding ways to decrease the detrimental effect on our readiness caused by mishaps. We are focusing on acquisition; base operating support; training; and deployment operations. For acquisition and training, the Army and Marine Corps is responding to deaths

from HMMWV rollovers by acquiring improved seat belt systems for tactical vehicles and by training deployed soldiers and marines to improve their driving skills. For deployment health protection, we began a program for the factory treatment of Army and Marine Corps combat uniforms with permethrin. This will provide protection against mosquitoes, and the diseases that they transmit, for the life of the uniform. Factory treatment ensures that all uniforms are treated and deployment-ready and that soldiers are not exposed to concentrated pesticides.

ENVIRONMENTAL MANAGEMENT

The Department continues to be a leader in every aspect of environmental management. We are proud of our environmental program at our military installations and are committed to pursuing a comprehensive environmental program.

Environmental Management Systems

To make our operations more efficient and sustainable across the Department, we are continuing our aggressive efforts to implement environmental management systems (EMS) based on the "plan-do-check-act" framework of the international standard for EMS (ISO 14001). We are embedding environmental management as a systematic process, fully integrated with mission planning and sustainment. This transformation is essential for the continued success of our operations at home and abroad. Implementing EMS will help preserve range and operational capabilities by:

- creating a long-term, comprehensive program to sustain training and testing capability while maintaining healthy ecosystems;

- conducting environmental range assessments to ensure that we protect human health and the environment; and,
- funding and implementing the INRMPs for our ranges.

In addition, EMS will help maintain and preserve our historic properties, archaeological resources, Native American, and other cultural assets for the benefit of future generations. Today, DoD has a large inventory of historic properties: 75 National Historic Landmarks, and nearly 600 places on the National Register of historic places, encompassing more than 19,000 individual properties, including buildings, structures, objects, and sites located at over 200 installations. Over the next two decades, tens of thousands more buildings will reach an age requiring evaluation of their historical significance.

Environmental Program - Summary of Request[3]
(President's Budget in $ Millions – Budget Authority)

	Fiscal Year 2005 As Appropriated	Fiscal Year 2006 Request
Environmental Restoration	1,352	1,370
BRAC Environmental[4]	328	449
Compliance	1,666	1,561
Pollution Prevention	142	143
Conservation	175	205
Technology	274	206
International[5]	3	3
TOTAL	**3,937**	**3,934**

In fiscal year 2006, the budget request includes $3.9 billion for environmental programs. This includes $1.4 billion for cleanup, $0.4 billion for BRAC environmental, $1.6 billion for

[3] Includes operations and maintenance, procurement, RDT&E, and military construction funding.
[4] Funding levels reflect total requirement.
[5] International is included in Pollution Prevention and Compliance.

compliance; about $0.1 billion for pollution prevention, and about $0.2 billion each for conservation and environmental technology.

Managing Cleanup

The Department is committed to the cleanup of property contaminated by hazardous substances, pollutants, and military munitions. We have achieved remedy in place or restoration complete at 15,950 out of 19,710 sites on active installations. At the end of FY 2004, 4,046 out of the 4,832 BRAC sites requiring hazardous waste remediation have a cleanup remedy constructed and in place, or have had all necessary cleanup actions completed in accordance with Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) standards. Hazardous waste cleanup at Formerly Used Defense Sites (FUDS) achieved remedy in place or response complete at 1,539 out of the 2,647 sites.

Managing Compliance and Preventing Pollution

The Department is committed to going beyond mere compliance. But compliance with existing laws and regulations is the base line for our program and we continue to plan and fund for this requirement. Our ability to meet these compliance driven goals continues to improve. In a letter to the editor of USA today, acting EPA Assistant Administrator Skinner publicly complemented the Department by stating, "*The Department of Defense (DoD) has been a leader in pollution prevention and implementing environmental-management systems that serve as models for other facilities.*" Pollution prevention techniques continue to save the Department needed funds as well as reduce pollution. The Department continues to demonstrate pesticide use risk reduction on installations and was recognized by the EPA as Pesticide Environmental Steward Program Champion, for the third year in a row.

Emerging Contaminants

In January 2005 the National Academy of Sciences (NAS) released a review of the science used to determine the public health risks from perchlorate, a chemical with important national defense applications due to its use in missile and rocket propellants, munitions, pyrotechnics, and flares which was funded jointly by DoD, DoE, EPA, and NASA. Even before the start of the NAS study, Federal agencies were working hard to understand and address potential risks of perchlorate. The NAS report yielded an independent assessment of the available science. Now federal agencies will be able to take actions based on sound science to address the issue of perchlorate in our nation's drinking water supply.

We continue to develop more comprehensive strategies to enable us to protect public health while sustaining our assets and better managing our liabilities. In 2004, in advance of any legally promulgated standard for perchlorate, the Department issued a policy to sample for perchlorate that has enabled the Department to better characterize the nature and extent of perchlorate plumes associated with its facilities. Over the last year, a joint effort between the Department and the State of California yielded a sampling prioritization protocol to ensure that active and former DoD sites with the greatest potential to cause a perchlorate-based health threat were investigated first. All current and formerly used DoD sites have now been jointly assigned a priority for sampling according to that protocol.

The Department is moving ahead with efforts directed toward removing perchlorate from the environment. In advance of any requirement, DoD proactively initiated remediation demonstration projects at several sites in California, Texas, and Massachusetts. We have taken corrective measures to ensure proper disposal and added additional wastewater treatment to manufacturing facilities using perchlorate. We continue to fund remediation technology research

and, this year, we launched a $9.5 million dollar wellhead treatment demonstration effort with several Southern California communities. The Army's effort to find substitutes for some of its training uses of perchlorate is also yielding positive results.

We are using these comprehensive approaches as a model to more proactively and cooperatively address other emerging contaminants such as trichloroethylene (TCE) and Royal Demolition eXplosive (RDX). The Department continues to engage with other agencies in a sustained collaborative effort to address emerging contaminants by creating mutually satisfactory sustainable solutions. Last fall, DoD began working with the Environmental Council of States to define opportunities for States, DoD, DoE, and EPA to address emerging contaminants more effectively in the future.

BUSINESS TRANSFORMATION

Business Management Process Transformation

The Business Management Modernization Program (BMMP) was established three years ago and has made significant progress in establishing key foundational elements necessary to enable broad business transformation across the Department. In April 2003, the DUSD (I&E) was designated as the Domain Owner for the Installations and Environment Domain of BMMP. Because the foundation is now laid, the program is redefining itself to focus on facilitating rapid delivery of DoD Enterprise capabilities.

The I&E Domain has achieved significant accomplishments over the past year. We developed a real property unique identification concept that will enable greater visibility of real property assets and associated financial resources. Our efforts focused on reengineering the

business process for real property inventory, resulting in standard data elements and data definitions for physical, legal and financial attributes of real property. Our efforts also produced, for the first time in DoD, an end-to-end process of real property management that articulates the interfaces with real property asset accountability and financial records. Our focus on data (data strategies, elements and definitions) will facilitate rapid implementation of the real property inventory capability upon deciding on our systems implementation strategy. Additionally, we developed a process model for environmental liabilities recognition, valuation, and reporting that contributes to our overall auditability. During this past year, we also established the Defense Installation Spatial Data Infrastructure project to implement DoD-wide policies and resource oversight for geospatial information resources that support the Installations and Environment business mission area.

During this fiscal year, we will conduct an analysis of system alternatives and prepare a transition plan to determine the best implementation strategy for the real property inventory reengineering effort. We will continue to make improvements across the Department in managing hazardous material by developing an enterprise-wide procedure for hazardous materials management. We will define I&E geospatial information needs and continue to minimize redundant acquisition of I&E geodata resources. Lastly, we are aggressively working to put into operation a DoD registry for physical locations. This registry will identify all DoD sites with a unique identifier and will be associated with firm boundary information. The registry will be available across the DoD enterprise and to potential users include the warfighting community and business mission areas. The site registry will allow for personnel and weapons system information systems to be linked to DoD's sites.

Competitive Sourcing

Competition is a driving force within the American economy, causing organizations to improve quality, reduce cost, and provide rapid delivery of better products and services. The President's Management Agenda identifies Competitive Sourcing as one of the five primary federal initiatives. The Department of Defense has long been the federal leader in using public-private competition under the process defined by OMB Circular A-76 to decide the least costly and most efficient source for commercial functions. It is essential that we continue to utilize the process, where it makes good military and business sense, to improve support to the warfighter and increase readiness. Many important base support functions fall into this category. The FY 2006 budget supports continued use of the improved process described in the recent revision to OMB Circular A-76 competitions for functions involving approximately 100,000 full time equivalents (FTE). This will allow achievement of the Department's targets in the President's Management Agenda.

CONCLUSION

The Department is transforming its installations and business practices through an asset management strategy, and we are now seeing the results of that transformation. We are achieving the President's goal to provide quality housing for our service members and their families, and we have made positive progress toward our goal to prevent deterioration and obsolescence and to restore the lost readiness of our facilities. We also are transforming our environmental management to become outcome oriented, focusing on results. We are responding vigorously to existing encroachment concerns and are putting a long-term installation and range sustainment strategy into effect.

The Base Realignment and Closure effort leading to the delivery of the Secretary's recommendations to the independent Base Closure Commission in May 2005 is a key means to transform our infrastructure to be more flexible to quickly and efficiently respond the challenges of the future. Together with the Global Defense Posture Review, BRAC 2005 will make a profound contribution to transforming the Department by rationalizing our infrastructure with Defense strategy.

In short, we have achieved significant accomplishments over the past few years, and we are well on our way to achieving our goals across the Installations and Environment Community. In closing, Mister Chairman, I sincerely thank you for this opportunity to highlight our successes and outline our plans for the future. I appreciate your continued support of our installations and environment portfolio, and I look forward to working with you as we transform our plans into actions.

RECORD VERSION

STATEMENT BY

MR. GEOFFREY G. PROSCH
PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE ARMY
(INSTALLATIONS AND ENVIRONMENT)

BEFORE THE

SUBCOMMITTEE ON READINESS
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

FIRST SESSION, 109TH CONGRESS

ON THE FISCAL YEAR 2006
ARMY MILITARY CONSTRUCTION BUDGET

15 MARCH 2005

NOT FOR PUBLICATION
UNTIL RELEASED BY THE
COMMITTEE ON ARMED SERVICES

Mr. Geoffrey G. Prosch
Principal Deputy Assistant
Secretary
of the Army,
Installations and Environment

Mr Geoffrey G. Prosch was appointed Principal Deputy (PDASA-I&E) by President Bush in June 2001. He has been designated the senior official of the Office of the ASA(I&E) since January 2004 and has served as the Acting ASA(I&E) from January to September of 2004. He is responsible for policy development, program oversight and coordination for the design, construction, real estate, operations, maintenance and management of Army installations; privatization of Army family housing, utilities and other infrastructure programs; base realignment and closure; environmental conservation, compliance, clean-up and site disposal programs; and management of the Army's safety and occupational health programs.

Mr. Prosch began his public service career as an Army officer. He graduated from the U.S. Military Academy (USMA) in 1969. His 31 years of commissioned service in the Infantry included over 12 years of command duty. Service highlights included an extended tour of duty in Vietnam with the 7th Cavalry as an infantry rifle platoon leader and company commander; command of a 5th Special Forces Group A-Team; duty at USMA as Aide-de-camp to the Superintendent and as a Military Science Instructor; command of 3rd Battalion 8th Infantry in Germany; duty with the Joint Chiefs of Staff; and Command of 1st Reserve Officer Training Corps Region. His awards include the Bronze Star for Valor, Purple Heart, and Legion of Merit.

He has extensive experience in federal and private industry implementing successful facility environmental, safety, and privatization programs. He served as Chief of Staff, Fort Carson, CO; Commander, Army Materiel Command-Saudi Arabia; and Garrison Commander, Fort Polk, LA. During his command, Fort Polk won the 1997 Vice President's Hammer Award for streamlining efficiencies, implementing over 100 reengineering initiatives, and partnering with the Department of Energy for installation energy savings performance contracts.

Mr. Prosch is committed to the three components of the Army Vision: "achieving a high quality of life for people" through the Residential Communities Initiative and other infrastructure privatization programs; "strengthening the Army's readiness to prevail in every mission" by improving our installations' capacity for power projection and training support; and "making Army transformation a reality" via Transformation of Installation Management and focusing on Installations as Flagships. He is dedicated to efficiently managing and expanding the Army's $15B budget for maintaining and improving its installations.

Mr. Prosch earned a Master of Science degree from Long Island University and is a graduate of the US Army War College. His civic affiliations include the Association of the U.S. Army, Association of Graduates USMA (past president Ft Bragg/Sandhills, NC Chapter) and Disabled American Veterans. He and his wife Kathryn raised their two children, Kathryn (25) and Charles (22) 2LT USA, on military installations worldwide.

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INTRODUCTION

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before you to discuss our Army's Military Construction budget for Fiscal Year 2006. Our request includes initiatives and sustainment of programs of critical importance to our Army, the Congress, and the Global War on Terrorism, and we appreciate the opportunity to report on them to you. We would like to start by thanking you for your unwavering support to our Soldiers and their families who serve our Nation around the world. Their courage and sacrifices remain the foundation of our Army, and they would not be able to perform their global missions so successfully without your steadfast support.

OVERVIEW

Installations are the home of combat power – a critical component to the Nation's force capabilities. The Department of Defense and our Army are working to ensure that we deliver cost-effective, safe, and environmentally sound capabilities and capacities to support the national defense mission.

Today, U.S. forces are engaged worldwide in a war against global terror. Operations Enduring Freedom and Iraqi Freedom clearly underscore the need for a joint, integrated military force ready to defeat all threats to U.S. interests. To meet the security challenges of the 21st Century, we require the right blend of people, weapons, and support systems. Regarding support systems, we need a global framework of Army installations, facilities, ranges, airfields and other critical assets that are properly distributed, efficient, and capable of ensuring that we can successfully carry out the roles, missions, and tasks that safeguard our security at home and overseas.

The Army's installations framework is multi-purposed. It must sustain the regular forward presence of U.S forces as well as their emergency deployment in crisis, contingency, and combat. It must have the surge capacity to support the mobilization and demobilization of our Army reserve component forces. It must also focus ten to twenty years into the future to develop technologically advanced, affordable, and effective joint systems and platforms and develop highly qualified and committed installation management personnel who will operate and maintain them. Our framework must provide a productive, safe, and efficient workplace and offer a decent quality of service and facilities for our Soldiers and their families (comparable to the American citizens off post they are pledged to defend).

We recognize the enormity of the task to provide the right installations framework given the other competing funding programs. We are challenged to find the optimum management approach that balances the many purposes of our assets. For example, while our installations retain their primary military mission to organize, train and equip our forces, they also are home to rare species of plants and animals while experiencing encroachment from outside civilian communities. Our stewardship thus embraces the joint warfighting requirements of the Combatant Commanders with environmental management and stewardship of our Earth.

DEFENSE INSTALLATIONS STRATEGIC PLAN

In August 2001, the Department of Defense issued the first-ever Defense Installations Posture Statement along with the initial Defense Facilities Strategic Plan. Those concepts and initiatives have guided the Department's programs and budgets and enabled substantial improvements in the management and sustainability of our installation assets. However, the attacks of September 11, 2001, and the ongoing

Global War on Terrorism significantly altered our requirement for homeland security. The Department of Defense 2004 Installations Strategic Plan significantly expands the scope and depth of the initial Strategic Plan. The expanded scope reflects the integral relationship between natural and manmade assets on our installations. It advances the integration of installations and the environmental, safety, and occupational health activities to enhance overall support of the military mission.

Our vision is to ensure installation assets and services are available when and where needed, with joint capabilities and capacities necessary to effectively and efficiently support DoD missions.

Our mission is to provide, operate, and sustain, in a cost-effective and environmentally sound manner, the installation assets and services necessary to support our military forces – in both peace and war.

Our goals include the following.

Right Size and Place: Locate, size, and configure installations and installation assets to meet the requirements of both today's and tomorrow's force structure.

Right Quality: Acquire and maintain joint Army installation assets to provide good, safe, and environmentally sound living and working places, suitable base services, and effective support for current and future missions.

Right Safety and Security: Protect Army installation assets from threats and unsafe conditions to reduce risk and liabilities.

Right Resources: Balance requirements and resources – money, people, and equipment – to optimize life-cycle investments and reduce budget turbulence.

Right Tools and Metrics: Improve portfolio management and planning by embracing best business practices, modern asset management techniques, and performance assessment metrics.

THE WAY AHEAD

Army installations are the home of U.S. combat power and are an inseparable element of the Nation's military readiness and wartime effectiveness. From our installations, we generate the combat power required today and develop the combat power that will be needed in the future. To operate installations effectively and efficiently, we must sustain, restore, and modernize all of our installation assets and services – all the natural and manmade assets associated with owning, managing, and operating an installation, including the facilities, people, and internal and external environments.

Our plan is to deliver a framework of installations, facilities, ranges, and other critical assets that is properly distributed, efficient, and capable of ensuring that we can successfully carry out the roles, missions, and tasks that safeguard our security at home and overseas. We have made good progress in many areas, but much remains to be done. America's security depends upon installation assets that are available when and where needed and with the right capabilities to support current and future mission requirements. As the guardians of Army installations and environment, we embrace transformation as the only way to guarantee these capabilities are delivered – effectively and efficiently.

ARMY INSTALLATION STRATEGIES

To improve our Army's facilities posture, we have undertaken specific initiatives to focus our resources on the most important areas – Barracks, Family Housing, Revitalization/Focused Facilities, Range and Training Land Strategy, and Current to Modular Force.

Barracks Modernization Program. Our Army is in the 12th year of its campaign to modernize barracks to provide 136,000 single enlisted permanent party Soldiers with quality living environments. The new complexes meet the Department of Defense "1+1" or equivalent standard by providing two-Soldier suites, increased personal privacy, larger rooms with walk-in closets, new furnishings, adequate parking, landscaping, and unit administrative offices separated from the barracks.

Army Family Housing. This year's budget continues our significant investment in our Soldiers and their families by supporting our goal to have contracts and funding in place to eliminate inadequate housing by Fiscal Year 2007 in the U.S. and by Fiscal Year 2008 overseas. For families living off-post, the budget for military personnel maintains the basic allowance for housing that eliminates out of pocket expenses.

Revitalization/Focused Facilities. Building on the successes of our housing and barracks programs, we are moving to improve the overall condition of Army infrastructure with the Focused Facility Strategy. The Installation Status Report is used to determine facilities quality ratings of C-1 to C-4 based on their ability to support mission requirements.

Installation Status Report – Facilities Quality Ratings	
C-1	Minor deficiencies that have negligible impact on mission performance
C-2	Some deficiencies that have limited impact on mission performance
C-3	Significant deficiencies that prevent performance of some missions
C-4	Major deficiencies that preclude satisfactory mission performance

We are a C-1 Army living and working in C-3 facilities. Our goal is to reach an overall Army average of C-2 quality by concentrating on seven types of C-3 and C-4 facilities. These focus facilities are general instruction buildings, Army National Guard Readiness Centers, Army Reserve Centers, tactical vehicle maintenance shops, training barracks, physical fitness centers, and chapels.

Army Range and Training Land Strategy. Ranges and training lands enable our Army to train and develop its full capabilities to ensure our forces are relevant and ready. Our Army Range and Training Land Strategy supports the Department of Defense's training transformation goals, Army transformation, and our Army's Sustainable Range Program. The Strategy identifies priorities for installations requiring resources to modernize ranges, mitigate encroachment, and acquire training land.

Current to Modular Force. The Fiscal Year 2006 budget includes projects to ensure that our "training battlefields" continue to meet the demands of force structure, weapons systems, and doctrinal requirements. As of Fiscal Year 2005, we have constructed or funded 80% of the Military Construction requirements for the Stryker Brigade Combat Teams.

Leveraging Resources. Complementary to these budget strategies, the Army also seeks ways to leverage scarce resources and reduce our requirements for facilities and real property assets. Privatization initiatives such as Residential Communities Initiative (RCI), Utilities Privatization, and build-to-lease family housing in Europe and Korea represent high payoff programs which have substantially reduced our dependence on investment funding. We also benefit from agreements with Japan, Korea, and Germany where the Army receives host nation funded construction.

In addition, Congress has provided valuable authorities to utilize the value of our non-excess inventory under the Enhanced Use Leasing program and to trade facilities in high cost areas for new facilities in other locations under the Real Property Exchange program. In both cases, we can capitalize on the value of our existing assets to reduce un-financed facilities requirements.

Looking toward the immediate future, we are aggressively reviewing our construction standards and processes to align with industry innovations and best practices. In doing so, we hope to deliver more facilities capability at comparable costs and meet our requirements faster.

MILITARY CONSTRUCTION

Our Army's Fiscal Year 2006 budget request includes $3.3 billion for Military Construction appropriations and associated new authorizations.

Military Construction Appropriation	Authorization Request	Authorization of Appropriations Request	Appropriation Request
Military Construction Army (MCA)	$1,262,719,000	$1,479,841,000	$1,479,841,000
Military Construction Army National Guard (MCNG)	N/A	$327,012,000	$327,012,000
Military Construction Army Reserve (MCAR)	N/A	$106,077,000	$106,077,000
Army Family Housing (AFH)	$549,636,000	$1,362,629,000	$1,362,629,000
TOTAL	$1,812,355,000	$3,275,559,000	$3,275,559,000

MILITARY CONSTRUCTION, ARMY (MCA)

The Active Army Fiscal Year 2006 Military Construction request is $1,262,719,000 for authorization and $1,479,841,000 for authorization of appropriations and appropriation. As was the case last year, we have included only minimal, critical, overseas projects in this year's budget.

These projects will provide the infrastructure necessary to ensure continued Soldier readiness and family well-being that is essential throughout any period of transition.

People Projects. The well-being of our Soldiers, civilians, and families is inextricably linked to our Army's readiness. We are requesting $759 million or fifty-one percent of our MCA budget for projects to improve well-being in significant ways.

Our Army continues to modernize and construct barracks to provide enlisted single Soldiers with quality living environments. This year's budget includes 19 barracks projects to provide new or improved housing for 5,190 Soldiers. With the approval of $716 million for barracks in this budget, 85 percent of our requirement will be funded at the "1+1" or equivalent standard. We are making considerable progress at installations in the United States, but will only fund high-priority projects at enduring installations in Europe and Korea.

We are requesting full authorization of $331 million for multi-phased barracks complexes, but requesting only $156 million in appropriations for these projects in Fiscal Year 2006. Our plan is to award each complex, subject to subsequent appropriations, as single contracts to gain cost efficiencies, expedite construction, and provide uniformity in building systems.

We are also requesting the second increment of funding, $21 million for a Basic Combat Training Complex that was fully authorized last year. This Complex will house 1,200 basic trainees and provide company and battalion headquarters with classrooms and an exterior physical fitness training area. The Fiscal Year 2006 budget also includes a physical fitness center for $6.8 million and a child development center for $15.2 million.

Current Readiness Projects. Projects in our Fiscal Year 2006 budget will enhance training and readiness by providing arrival/departure facilities, maintenance facilities, and the second phase of a library and learning center. We will also construct combined arms collective training facilities, shoot houses, an infantry platoon battle course, a qualification training range, a multipurpose squad course, a digital multipurpose training range, urban assault courses, and a modified record fire range. These facilities will provide our Soldiers realistic, state-of-the-art live fire training. We are requesting a total of $424 million for these high priority projects.

Modular Force Projects. Our budget supports transformation of the Army to a modern, strategically responsive force. Projects include a road upgrade, a tactical vehicle wash facility, a battle area complex, a modified urban assault course, and a vehicle maintenance facility. Our budget contains $115 million for these projects.

Other Worldwide Support Programs. The Fiscal Year 2006 MCA budget includes $141 million for planning and design of future projects. As executive agent, our Army also provides oversight of design and construction for projects funded by host nations. The Fiscal Year 2006 budget requests $20 million for oversight of approximately $800 million of host nation funded construction in Japan, Korea, and Europe for all Services.

The Fiscal Year 2006 budget also contains $20 million for unspecified minor construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

MILITARY CONSTRUCTION, ARMY NATIONAL GUARD (MCNG)

Our Army National Guard's Fiscal Year 2006 Military Construction request for $327,012,000 (for appropriation and authorization of appropriations) is focused on Current Readiness, Modular Force, and other worldwide and unspecified programs.

Current Readiness Projects. In Fiscal Year 2006, our Army National Guard has requested $71.6 million for six projects to support current readiness. These funds will provide the facilities our Soldiers require as they train, mobilize, and deploy. Included are one Readiness Center, two maintenance facilities, two training projects, and a training range environmental mitigation project.

Modular Force Projects. This year, our Army National Guard is requesting $201.7 million for 37 projects to transform to a Modular Force. There are 13 projects for our Army Division Redesign Study, three for Aviation Transformation to provide modernized aircraft and change unit structure, four for the Army Range and Training Land Strategy, and 17 for the Stryker Brigade Combat Team initiative.

Other Worldwide Support Programs. The Fiscal Year 2006 MCNG budget also contains $46.1 million for planning and design of future projects, along with $7.6 million for unspecified minor military construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

MILITARY CONSTRUCTION, ARMY RESERVE (MCAR)

Our Army Reserve's Fiscal Year 2006 Military Construction request for $106,077,000 (for appropriation and authorization of appropriations) is for Current Readiness and other worldwide unspecified programs.

Current Readiness Projects. In Fiscal Year 2006, our Army Reserve will invest $56.4 million to construct four new Reserve Centers and the second phases of two other Reserve Centers; invest $15.4 million to construct the first phase of a three-phase noncommissioned officer academy; and $5.4 million for a Public Safety Center - for a total facility investment of $77.2 million. Construction of the six Army Reserve Centers will support over 2,700 Army Reserve Soldiers. In addition, our Army Reserve will invest $11.5 million to construct six training ranges, which will be available for joint use by all Army components and military services.

Other Worldwide Unspecified Programs. The Fiscal Year 2006 MCAR budget request includes $14.4 million for planning and design for future year projects. The Fiscal Year 2006 MCAR budget also contains $3.0 million for unspecified minor military construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

ARMY FAMILY HOUSING CONSTRUCTION (AFHC)

Our Army's Fiscal Year 2006 family housing request is $549,636,000 (for appropriation, authorization of appropriation, and authorization). It continues the successful and well-received Whole Neighborhood Revitalization initiative approved by Congress in Fiscal Year 1992 and supported consistently since that time, and our Residential Communities Initiative (RCI) program.

The Fiscal Year 2006 new construction program provides Whole Neighborhood replacement projects at seven locations in support of 709 families for $231.7 million. In addition, we will replace 709 houses and upgrade another 1,112 using traditional military construction.

The Construction Improvements Program is an integral part of our housing revitalization and privatization programs. In Fiscal Year 2006, we

are requesting $162.4 million for improvements to 1,112 existing units at three locations in the United States and five locations in Europe, as well as $138.0 million for scoring and direct equity investment in support of privatizing 3,606 units at three RCI locations.

In Fiscal Year 2006, we are also requesting $17.5 million for planning and design for future family housing construction projects critically needed for our Soldiers.

Privatization. RCI, our Army's Family Housing privatization program, is providing quality, sustainable housing and communities that our Soldiers and their families can proudly call home. RCI is a critical component of our Army's effort to eliminate inadequate family housing in the U.S. The Fiscal Year 2006 budget provides support to continue implementation of this highly successful program.

We are leveraging appropriated funds and Government assets by entering into long-term partnerships with nationally recognized private sector real estate development/management and homebuilder firms to obtain financing and management expertise to construct, repair, maintain, and operate family housing communities.

The RCI program currently includes 45 installations with a projected end state of almost 84,000 units – over 90 percent of the family housing inventory in the United States. By the end of Fiscal Year 2005, our Army will have privatized 29 installations with an end state of 60,000 homes. We have privatized over 50,000 homes through December 2004, and with your approval of the Fiscal Year 2006 budget, we will have privatized over 71,600 homes by the end of Fiscal Year 2006.

ARMY FAMILY HOUSING OPERATIONS (AFHO)

Our Army's Fiscal Year 2006 family housing operations request is $812,993,000 (for appropriation and authorization of appropriations), which is approximately 59 percent of the total family housing budget. This account provides for annual operations, municipal-type services, furnishings, maintenance and repair, utilities, leased family housing, demolition of surplus or uneconomical housing, and funds supporting management of the Military Housing Privatization Initiative.

Operations ($138 million). The operations account includes four sub-accounts: management, services, furnishings, and a small miscellaneous account. All operations sub-accounts are considered "must pay accounts" based on actual bills that must be paid to manage and operate family housing.

Utilities ($132 million). The utilities account includes the costs of delivering heat, air conditioning, electricity, water, and wastewater support for family housing units. While the overall size of the utilities account is decreasing with the reduction in supported inventory, per-unit costs have increased due to general inflation and the increased costs of fuel. We continue to make steady progress in the privatization of utility systems/infrastructure on our installations.

Maintenance and Repair ($309 million). The maintenance and repair (M&R) account supports annual recurring maintenance and major maintenance and repair projects to maintain and revitalize family housing real property assets. Since most Family Housing operational expenses are fixed, M&R is the account most affected by budget changes. Funding reductions results in slippage of maintenance projects that adversely impacts on Soldiers and family quality of life.

Leasing ($214 million). The leasing program provides another way of adequately housing our military families. The Fiscal Year 2006 budget includes funding for 13,190 housing units, including existing Section 2835 ("build-to-lease" – formerly known as 801 leases) project requirements, temporary domestic leases in the United States, and approximately 8,100 units overseas.

RCI Management ($20 million). The RCI management program provides funding for the implementation and oversight requirements for procurement, environmental studies, real estate support, portfolio management, and operation of the overall RCI program.

BASE REALIGNMENT AND CLOSURE (BRAC)

In 1988, Congress established the Defense Base Realignment and Closure Commission to ensure a timely, independent and fair process for closing and realigning military installations. Since then, the Department of Defense has successfully executed four rounds of base closures to rid the Department of excess infrastructure and align the military's base infrastructure to a reduced threat and force structure. Through this effort, our Army estimates approximately $10 billion in savings through 2005.

Our Army is requesting $93.9 million in Fiscal Year 2006 for prior BRAC rounds ($4.5 million to fund caretaking operations of remaining properties and $89.4 million for environmental restoration). In Fiscal Year 2006, our Army will complete environmental restoration efforts at four installations, leaving nine remaining BRAC installations requiring environmental restoration. We also plan to dispose of an additional 1,119 acres in Fiscal Year 2006.

To date, our Army has disposed of 227,429 acres (88 percent of the total acreage disposal requirement of 258,607 acres). We have 31,186 acres remaining to dispose of at 21 installations. Our Army continues to save more than $900 million annually from previous BRAC rounds. To date, the Army has spent $2.6 billion on BRAC environmental restoration.

OPERATION AND MAINTENANCE

The Fiscal Year 2006 Operation and Maintenance budget includes funding for Sustainment, Restoration, and Modernization (S/RM) and Base Operations Support (BOS). The S/RM and BOS accounts are inextricably linked with our Military Construction programs to successfully support our installations. The Army has centralized the management of its installations assets under the Installation Management Agency (IMA) to best utilize operation and maintenance funding.

Sustainment, Restoration, and Modernization. S/RM provides funding for the Active and Reserve Components to prevent deterioration and obsolescence and restore the readiness of facilities on our installations.

Sustainment is the primary account in installation base support funding responsible for maintaining the infrastructure to achieve a successful readiness posture for our Army's fighting force. It is the first step in our long-term facilities strategy. Installation facilities are the mobilization and deployment platforms of America's Army and must be properly maintained to be ready to support current Army missions and future deployments.

The second step in our long-term facilities strategy is recapitalization by restoring and modernizing our existing facility assets. Restoration includes repair and restoration of facilities damaged by

inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes. Modernization includes alteration or modernization of facilities solely 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, such as foundations and structural members.

Base Operations Support. This funds programs to operate the bases, installations, camps, posts, and stations for our Army worldwide. The program includes municipal services, government employee salaries, family programs, environmental programs, force protection, audio/visual, base communication services and installation support contracts. Army Community Service and Reserve Component family programs include a network of integrated support services that directly impact Soldier readiness, retention, and spouse adaptability to military life during peacetime and through all phases of mobilization, deployment, and demobilization.

Installation Management Agency. The Installation Management Agency (IMA) is a result of the Army leadership's vision to streamline headquarters, create more agile and responsive staffs, reduce layers of review and approval, focus on mission, and transform the Army. IMA brings together all installation support services under one umbrella to promote optimal care and support of Soldiers and families. IMA is at the center of the Army's initiative to mold installation support functions into a corporate structure, enabling equitable, efficient, and effective management of Army installations worldwide. IMA supports readiness, promotes well-being, and preserves infrastructure and the environment.

In its first two years, IMA has been successful in executing the tasks associated with growing a new organization, while simultaneously supporting the Global War on Terrorism. In the upcoming year, IMA will

continue to develop a cadre of leaders to orchestrate excellence in installation management; manage installations equitably, effectively, and efficiently; support the well-being of the Army's people; practice sound stewardship and resource management; deliver improved mission support to all organizations; and develop and sustain an innovative, team-spirited, highly capable, service-oriented workforce.

HOMEOWNERS ASSISTANCE FUND, DEFENSE

Our Army is the Department of Defense Executive Agent for the Homeowners Assistance Program. This program provides assistance to homeowners by reducing their losses incident to the disposal of their homes when military installations at or near where they are serving or employed are ordered to be closed or the scope of operations reduced. For Fiscal Year 2006, there is no request for appropriations and authorization of appropriations. Requirements for the program will be funded from prior year carryover and revenue from sales of homes. Assistance will be continued for personnel at five installations that are impacted with either a base closure or a realignment of personnel, resulting in adverse economic effects on local communities. The Fiscal Year 2006 Homeowners Assistance Program budget does not include resources for potential requirements that the new Base Realignment and Closure 2005 process may cause.

FISCAL YEAR 2005 SUPPLEMENTAL BUDGET REQUEST

The Fiscal Year 2005 Supplemental request funds facilities that directly support the Global War on Terrorism in both the United States and overseas locations. It contains $990.1 million in Military Construction for the Active Component Army.

Within the Central Command area of operations in Afghanistan and Iraq, there are $687.3 million for military construction projects. Projects in Afghanistan include barracks, a fuel storage tank farm and distribution system, Joint operations center, power generation plant, and an ammunition supply point. Projects in Iraq include barracks, a tactical operations building, medical facilities, an overhead cover system for force protection, an equipment support activity, a battalion and company headquarters, a 60-mile supply route, and a project to encapsulate hazardous materials bunkers.

Within the Southern Command area of operations at Guantanamo Bay, Cuba, there is $41.8 million for two military construction projects - a detention facility and a radio range security fence.

Within the United States, there is $261 million for military construction relating to modularity. The projects, distributed to seven different locations, include site preparation and utility work, an aircraft maintenance hangar, an aircraft hangar, and mobilization and training barracks.

Additionally, the Fiscal Year 2005 Supplemental budget includes $248 million in Other Procurement, Army for relocatable buildings to provide temporary barracks, company operations, and dining and maintenance facilities at five locations in the United States. These are required to support our Soldiers as they prepare for battle.

SUMMARY

Mr. Chairman, our Fiscal Year 2006 budget is a balanced program that supports our Soldiers and their families, the Global War on Terrorism, Army transformation, readiness and Department of Defense installation strategy goals. We are proud to present this budget for your consideration

because of what this $3.3 billion Fiscal Year 2006 budget will provide for our Army:

- New barracks for 5,190 Solders
- New housing for 5,800 families
- Management of 71,600 privatized homes
- Operation and sustainment of 48,000 government-owned and leased homes
- New or improved Readiness Centers for over 3,300 Army National Guard Soldiers
- New Reserve Centers for over 2,700 Army Reserve Soldiers
- Three Aviation Transformation projects
- $292 million investment in training ranges
- Facilities support for two Stryker Brigades
- Transfer/disposal of 88 percent of prior Base Realignment and Closure acreage

Our long-term strategies for installations will be accomplished through sustained and balanced funding, and with your support, we will continue to improve Soldier and family quality of life, while remaining focused on our Army's transformation.

In closing, we would like to thank you again for the opportunity to appear before you today and for your continued support for our Army.

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

STATEMENT OF

HONORABLE B. J. PENN, ASSISTANT SECRETARY OF THE NAVY

(INSTALLATIONS AND ENVIRONMENT)

BEFORE THE

SUBCOMMITTEE ON READINESS

OF THE

HOUSE ARMED SERVICES COMMITTEE

15 MARCH 2005

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
ARMED SERVICES COMMITTEE

BJ Penn
Assistant Secretary of the Navy
(Installations and Environment)

Mr. Penn was appointed Assistant Secretary of the Navy (Installations and Environment) on 1 March 2005. In this position Mr. Penn is responsible for formulating policy and procedures for the effective management of Navy and Marine Corps real property, housing, and other facilities; environmental protection ashore and afloat; occupational health for both military and civilian personnel; and timely completion of closures and realignments of installations under base closure laws.

Mr. Penn began his career as a Naval Aviator. He amassed over 6500 flight hours in sixteen different types of aircraft. He was EA-6B Pilot of the Year in 1972. Significant leadership assignments include: Executive Officer/Commanding Officer VAQ 33, Battalion Officer at the U.S. Naval Academy (including Officer-in-Charge of the Plebe Detail for the class of '83), Air Officer in USS America, Special Assistant to the Chief of Naval Operations, Commanding Officer of NAS North Island, CA, and Deputy Director of the Navy Office of Technology Transfer & Security Assistance.

Mr. Penn joined the Sector staff of Loral Federal Systems in 1995 as Director, International Business. Primary assignments involved airborne Electronic Warfare and Defensive Electronic Counter Measure Systems. When Lockheed Martin acquired Loral, he was assigned to the Corporate Staff to develop markets in Central and Eastern Europe. In 1998, he transferred to Naval Electronics and Surveillance Systems working Advanced Programs. In this capacity, he supported development of the Interoperability CONOPS for JSF, technology refreshment for the F-16 and development of Unmanned Aerial Vehicle and Autonomous Undersea Vehicle efforts and C4ISR initiatives.

Prior to becoming the Assistant Secretary of the Navy (I&E), Mr. Penn was the Director, Industrial Base Assessments from October 2001 to March 2005. In this position, he was responsible for the overall health of the U.S. Defense industrial base; the Department's policies and plans to ensure existing and future industrial capabilities can meet the Defense missions; guidelines and procedures for maintaining and enhancing and transformation of the Defense industrial base, industrial base impact assessments of acquisition strategies of key programs, supplier base considerations, and offshore production.

Mr. Penn was born and raised in Peru, IN. He received his BS from Purdue University, West Lafayette, IN and his MS from The George Washington University, Washington, DC. He has also received certificates in Aerospace Safety from the University of Southern California and in National Security for Senior Officials from the Kennedy School, Harvard University.

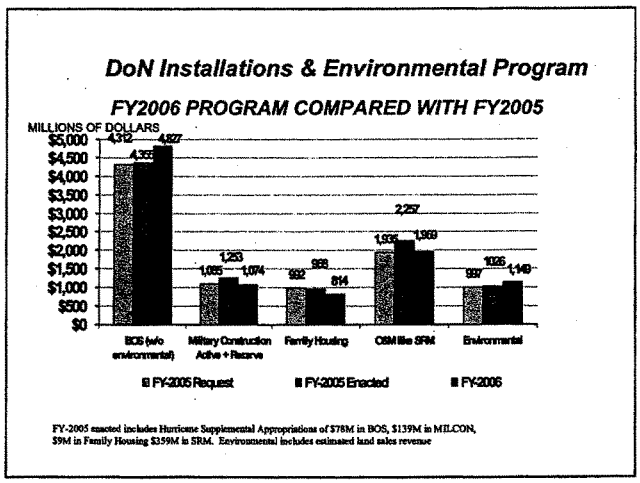
Mister Chairman and members of the Committee, I are pleased to appear before you today to provide you with an overview of the Navy and Marine Corps team's shore infrastructure and environmental programs.

FY-06 BUDGET OVERVIEW

Our bases and stations provide the essential services and functions that help us train and maintain our Naval forces, and enhance the quality of life for our Sailors, Marines and their families. Winning the Global War on Terrorism (GWOT) is our number one priority while we transform our force structure and business processes to meet the readiness needs of today and tomorrow. The Department of the Navy (DoN) has a considerable investment in shore infrastructure: 104 installations in the continental United States and 18 overseas locations with a combined plant replacement value of about $181 billion.

The DoN FY-06 budget request for installations and environmental programs totals $9.8 billion[1] and provides the funds to operate, recapitalize and transform our shore installations.

In this budget, we have focused our efforts on balancing the risks across the operational, institutional, force management and future challenges identified by the Department and the Department of Defense (DoD).



The **Base Operations Support** (BOS) request of $4.8 billion, excluding environmental which is shown separately, provides fundamental services such as utilities, fire and security, air operations, port operations, and custodial care that enable the daily operations of our bases. The increase of $471 million to the FY-2005 enacted level is primarily due to functional transfers to properly align Navy Marine Corps Internet with

[1] To avoid double counting in the graph, environmental is shown separately from BOS, and MILCON is shown separately from SRM funds

Base Operating Support and program growth to accomplish utilities privatization preparation, improve overseas Morale, Welfare and Recreation Programs supporting our forward deployed forces, and to restore funding required to execute shore mission support without degrading quantity or quality of support. We believe we have properly priced BOS to avoid execution year adjustments as we have experienced in the past. We are also working with the Office of the Secretary of Defense and the other Components to define common standards and performance metrics for managing installations support.

Our **Military Construction Navy and Naval Reserve** request is a very robust $1,074 million, about the same as the enacted FY-2005 level of $1,114 million after excluding the $139 million the DoN received in the Emergency Hurricane Supplemental Appropriations Act, 2005. This level of funding keeps us on track to eliminate inadequate bachelor housing, and provides critical operational, training, and mission enhancement projects.

The **Family Housing** request of $813 million is about the same as the enacted FY-2005 level of $835 million after excluding the $9 million the DoN received in the Emergency Hurricane Supplemental. It provides $219 million in family housing construction and improvements funds, 80 million above the enacted FY-2005 level of $139 million. Funds to operate, maintain and revitalize the worldwide inventory of about 33,000 units total $594 million, $103 million less than the enacted FY-2005 level (excluding the $9 million in the Emergency Hurricane Supplemental), due to a decline of over 18,000 homes from the FY-2005 level from our housing privatization efforts. The DoN continues to fund Basic Allowance for Housing (BAH) at a level that eliminates average out-of-pocket housing expenses for service member. BAH makes finding affordable housing in the community more likely for our service members, and it helps our housing privatization efforts succeed.

Sustainment, Restoration and Modernization (SRM) includes military construction and Operation and Maintenance funds. Our FY-2006 request is $71 million above the enacted FY-2005 level without the Hurricane Supplemental. Sustainment funds the necessary maintenance and repairs needed to keep a facility in good working order over its expected service life. Facilities sustainment requirements are based on a DoD model. The FY-2006 budget maintains 95 percent of the model requirement for Navy and Marine Corps bases. Restoration and Modernization funds regenerate the physical plant either through reconstruction or major renovation to keep the facility modern and relevant.

Our **environmental program** of $1,149 million, comprised of a variety of operating and investment appropriations, climbs $123 million above the FY-2005

enacted level. Within this broad category, compliance accounts decline as a result of fewer one-time projects; conservation and pollution prevention funds remain steady; research and technology development decline by $15 million as FY-2005 congressional increases are not continued in FY-2006; cleanup of active bases increases by $39 million, primarily to support cleanup of the former Vieques training range in Puerto Rico. Of particular interest to this Subcommittee, we have included $143 million in FY-2006 appropriations to cover prior BRAC minimum required environmental cleanup and caretaker costs. In preparing the budget, we also included $133 million in estimated land sales revenue that would be used to accelerate prior BRAC cleanup efforts.

Here are some of the highlights of these programs.

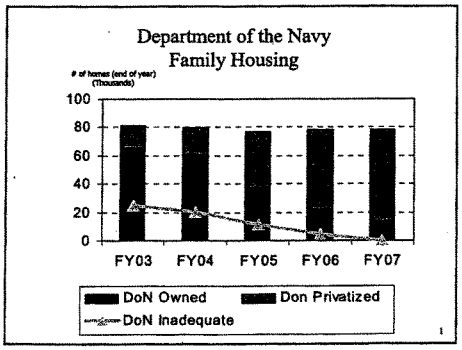
HOUSING

Our FY-2006 budget request reflects the DoN's continued commitment to improve living conditions for Sailors, Marines, and their families. We have programmed the necessary resources and expect to have contracts in place by the end of FY-2007 to eliminate our inadequate family and bachelor housing.

Family Housing

Our family housing strategy consists of a prioritized triad:

- Reliance on the Private Sector. In accordance with longstanding DoD and DoN policy, we rely first on the local community to provide housing for our Sailors, Marines, and their families. Approximately three out of four Navy and Marine Corps families receive a BAH and own or rent homes in the community.
- Public/Private Ventures (PPVs). With the strong support from this Committee and others, we have successfully used statutory PPV authorities enacted in 1996 to partner with the private sector to help meet our housing needs through the use of private sector capital. These authorities allow us to leverage our own resources and provide better housing faster to our families.
- Military Construction. Military construction will continue to be used where PPV authorities don't apply (such as overseas), or where a business case analysis shows that a PPV project is not financially sound.



We will be able to eliminate 77% of our inadequate inventory through the use of public/private ventures. As of 1 March, we have awarded 15 projects totaling over 26,000 units. As a result of these projects, almost 17,500 homes will be replaced or renovated. An additional 2,700 homes will be constructed for Navy and Marine Corps families. Through the use of these authorities we have secured almost $3.0 billion in private sector investment from $300 million of DoN funds for these 15 projects. This represents a leverage ratio of ten to one. During FY-2005 and 2006, we plan to award projects totaling 29,000 homes at ten Navy and Marine Corps locations. This will allow us to improve our housing stock and provide more homes to Sailors, Marines and their families much faster than if we relied solely on traditional military construction. By the end of FY-2007, the Navy and Marine Corps will have privatized 78 percent and 95 percent, respectively, of their worldwide housing stock.

Planned Privatization Projects

FY	Location	# homes
	USN	
05	Mid Atlantic	5,930
06	Midwest Regional	1,879
06	Southeast Regional I	4,437
06	San Diego Phase III	4,268
06	Oahu II	2,336
	SubTotal	18,850
	USMC	
05	Camp Lejeune/Cherry Pt	3,426
05	29 Palms/Kansas City	1,510
06	MCB Hawaii	1,136
06	Camp Lejeune/Cherry Pt II	959
06	Camp Pendleton IV	3,359
	SubTotal	10,390
	DoN Total	**29,240**

Our FY-2006 family housing budget includes $219 million for family housing construction and improvements. This amount includes $112 million as a Government investment in family housing privatization projects. It also includes $594 million for the operation, maintenance, and leasing of DoN family housing.

Bachelor Housing

Our budget request of $184 million for bachelor quarters construction projects continues the emphasis on improving living conditions for our unaccompanied Sailors and Marines. There are three challenges:

1. Provide Homes Ashore for our Shipboard Sailors. There are approximately 18,400 junior enlisted unaccompanied Sailors worldwide who live aboard ship even while in homeport. The Navy has programmed funding through FY-2008 to achieve its "homeport ashore" initiative by providing ashore living accommodations for these Sailors. We will achieve this goal through a mix of military construction, privatization authorities, and, for the interim, more intensive use of our barracks capacity by housing two members per room. Our FY-2006

budget includes three "homeport ashore" projects: $7.8 million at Naval Station Mayport, FL (216 spaces); $50 million at Naval Station, Everett, WA (818 spaces); and $13.7 million at Naval Amphibious Base Coronado, CA (800 spaces), which is planned for privatization. The funds would be used as a Government cash contribution to a public/private entity.

2. Ensure our Barracks Meet Today's Standards for Privacy. We are building new and modernizing existing barracks to increase privacy for our single Sailors and Marines. The Navy uses the "1+1" standard for permanent party barracks. Under this standard, each single junior Sailor has his or her own sleeping area and shares a bathroom and common area with another member. To promote unit cohesion and team building, the Marine Corps was granted a waiver to adopt a "2+0" configuration where two junior Marines share a room with a bath. The Navy will achieve these barracks construction standards by FY-2016; the Marine Corps by FY-2012. We are pursuing a waiver of the "1 + 1" standard to allow us to build an enlisted barracks project in Norfolk to private sector standards. We believe this will reduce construction costs, improve amenities, and facilitate opportunities to privatize barracks in the future.
3. Eliminate gang heads. The Navy and Marine Corps remain on track to eliminate inadequate barracks with gang heads[2] for permanent party personnel. The Navy achieves this goal by FY-2007, the Marines by FY-2005.

BQ Privatization

We are applying authority provided to us by Congress to proceed with three pilot unaccompanied housing privatization projects. We issued a solicitation for our first project at San Diego in September 2004 and received very positive responses from industry. We will soon take the next step to narrow the field and invite up to four highly qualified offerors to submit detailed technical and financial proposals. We plan to select a single proposal by late Spring 2005 and make an award in January 2006 after notifying Congress.

We intend to notify Congress of our intent to issue a solicitation for our second pilot project – at Hampton Roads, Virginia – in the very near future. We have also initiated a concept development for our third pilot project to provide unaccompanied housing in the Pacific Northwest.

[2] Gang heads remain acceptable for recruits and trainees.

MILITARY CONSTRUCTION

Military Construction Projects

The DoN FY-2006 Military Construction program requests appropriations of $1,029 million, consisting of $830 million for Navy, $169 million for Marine Corps, and $30 million for planning and design. The authorization request totals $1,078 million. Our FY-2006 budget uses $92 million in prior year savings identified during budget formulation to finance additional military construction needs above the FY-2006 appropriation request. FY-2006 projects were properly priced consistent with the analysis that identified the prior year savings. The Naval and Marine Corps Reserve Military Construction appropriation and authorization request is $45 million.

The active Navy program consists of:

- $218 million for eight Chief of Naval Operations projects for Homeport Ashore, Great Lake Recruit Training Command recapitalization and the Naval Academy.
- $215 million for seven waterfront and airfield projects.
- $92 million for three special weapons protection projects.
- $239 million for 12 projects supporting new weapons systems such as F/A 18 E/F, V-22, H60R/S, and VXX.
- $58 million for four mission enhancement projects such as the Pacific War fighting Center at Naval Station Pearl Harbor, HI; and
- $9 million for one environmental compliance project at Naval Air Station Pensacola, FL.

The active Marine Corps program consists of:

- $58 million for two barracks, one mess hall and one fire safety quality of life project.
- $25 million in a continuing effort to correct wastewater environmental compliance violations at Camp Pendleton, CA.
- $54 million for three airfield recapitalization projects at Marine Corps Air Station Quantico, VA, including the second increment of funding to replace 1930's vintage HMX maintenance hangars and a parking apron.
- $18 million for four projects to provide maintenance facilities, including the new Assault Breacher Vehicle at Camp Pendleton, CA and Camp Lejeune, NC; hot refueling for rotary wing aircraft at MCAS Yuma, AZ; and critical training for Marines with a Multi-Purpose Machine Gun Range at Camp Lejeune, NC.
- $14 million for five projects that cover a broad range of facility improvements, e.g., main gate access and inspection; encroachment remedies; missile storage.

The Naval and Marine Corps Reserve program consists of two joint reserve centers, a Marine Corps reserve centers, a Marine reserve-training center, and a hanger modification.

Fourteen Navy and two Marine Corps[3] projects have construction schedules exceeding one year and cost more than $50 million, thus meeting the DoD criteria for incremental funding in the FY-2006 budget. Seven Navy and one Marine Corps projects received full authorization in FY-2004 or FY-2005 and are being continued or completed in FY-2006. The budget request new authorization to start seven Navy and two Marine Corps incrementally funded projects in FY-2006.

Outlying Landing Field, Washington County, North Carolina

The new F/A-18E/F Super Hornet is replacing F-14 and older F/A-18C aircraft. A Navy Environmental Impact Statement (EIS) examined alternatives for homebasing these new aircraft on the East Coast, opting to base eight tactical squadrons and a fleet replacement squadron at Naval Air Station Oceana, VA, and two tactical squadrons at Marine Corps Air Station, Cherry Point, NC.

This homebasing decision requires a new Outlying Landing Field (OLF) to support fleet carrier landing practice training. The current site near Virginia Beach, VA is not as effective for night-time training due to ambient light sources, and it lacks the capacity to handle a training surge such as experienced for the war on terrorism and Operation Iraqi Freedom. The Navy selected a site in Washington County, North Carolina, about halfway between NAS Oceana and MCAS Cherry Point, as the best alternative from an operational perspective.

A Federal District Court ruled last month that Navy did not fulfill its obligations under the National Environmental Policy Act (NEPA) before making the decision to construct the OLF, and has enjoined the Navy from taking further actions to plan, develop, or construct the OLF until it completes additional NEPA analysis. The Navy continues to believe that the EIS that it prepared was based on sound science and rigorous analysis, and met all requirements of NEPA. Nonetheless, the Navy is carefully examining the court's ruling and considering its options on how to respond. The FY-2006 budget includes $23 million in prior year funds to complete land acquisition in the OLF core area and commence horizontal construction. We continue to believe that these funds will be required for OLF purposes and will be executable in FY-2006.

[3] The budget also incrementally funds a $14 million Marine Corps project.

VXX

We are pleased to report significant progress on VXX, the next generation helicopter transportation for the President, Vice President and heads of state. Marine Helicopter Squadron One (HMX-1), located at the Marine Corps Air Facility, Quantico, VA, performs these helicopter transportation mission using the VH-3D introduced in 1974 and the VH-60N fielded in 1989. These aircraft are approaching the end of their service lives, and do not have the growth margin to incorporate the improved capabilities required to meet evolving mission needs in the post 9/11 environment.

The Navy awarded a System Development and Demonstration acquisition contract to Lockheed Martin in January 2005 to build and deliver eight VXX aircraft for test and evaluation and pilot production. The new aircraft will provide increased performance; improved mission, communication, navigation, and maintainability; and expanded potential for future growth. Developmental flight-testing will begin mid FY-2005, with delivery of the first test article by April 2007. Initial operating capacity is set for the fourth quarter FY-2009.

The Navy also awarded a construction contract in January 2005 to build an eight-bay test and evaluation hanger with laboratory, maintenance, and office space for a combined Lockheed Martin – Navy program management team at Naval Air Station Patuxent River, MD. The Navy commissioned an independent study to consider alternate methods of providing in-service support for the aircraft. The study concluded that a government owned contractor operated facility at Patuxent River provided significant life cycle cost savings to the Navy. The $96 million, incrementally funded design/build facility will also include an in-service support capacity for the aircraft once operational. The current working estimate for construction is $10 million below the authorization request in the FY-2005 budget.

FACILITIES

Facilities Sustainment, Restoration and Modernization (SRM)

Sustainment -- The DoD uses models to calculate life cycle facility maintenance and repair costs. These models use industry-wide standard costs for various types of buildings and geographic areas and are updated annually. Sustainment funds in the Operation and Maintenance accounts maintain shore facilities and infrastructure in good working order and avoid premature

SRM

Navy	FY-04	FY-05	FY-06
Sustainment (%)	75%	95%	95%
Recap Rate (years)	103	104	98

Marine Corps	FY-04	FY-05	FY-06
Sustainment (%)	96%	95%	95%
Recap Rate (years)	109	82	103

degradation. The Navy and Marine Corps achieve 95 percent funding of the sustainment model requirements in FY-2005 and FY-2006, consistent with the DoD goal. The DoN funding increases by 1.4% from FY-2005 to FY-2006.

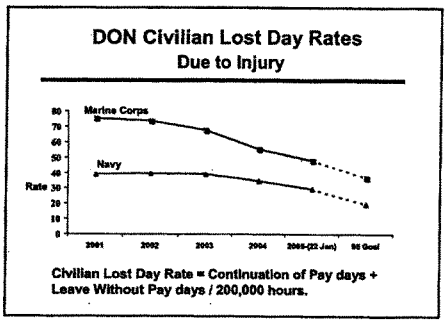
Recapitalization -- Restoration and modernization provides for the major recapitalization of our facilities using Military Construction, Operation and Maintenance, Navy Working Capital Fund, and Military Personnel Navy funds. The "recap" metric is calculated by dividing the plant replacement value by the annual investment of funds and it is expressed as numbers of years. The DoD goal is to attain an annual 67-year rate by FY-2008. Neither the Navy nor the Marine Corps attains the 67-year goal in the current FYDP due to affordability.

The FY-2006 recapitalization rate has improved substantially from that reported last year as a result of DoD allowing the military departments to take credit for centrally managed Service demolition programs. The Navy has $51 million and the Marine Corps $5 million for their FY-2006 central demolition programs, which combined is expected to demolish over 2.5 million square feet of outdated facilities. This approach allows us to consider the construction of new facilities as part of the recap metric calculation as long as an equivalent square footage of old facilities are demolished anywhere else. We believe that this corporate view is a more accurate reflection of the age of our while inventory and the need for recapitalization.

EFFICIENCIES

Naval Safety

We remain committed to achieving Secretary Rumsfeld's two-year challenge to reduce FY-2002 baseline mishap rates and accidents by 50% by the end of FY-2005. At the end of calendar year 2004, 15 months into the two-year challenge, the Department was on track to meet the SECDEF goal in over 70% of the targeted areas.



The Secretary of the Navy has embraced improving safety as one of his top objectives for this fiscal year. Last year Secretary England convened the first semi-annual Navy and Marine Corps Safety Council, comprised of Senior Flag and General Officers, to review ongoing mishap reduction efforts. The DoN is pursuing Occupational Safety and Health Administration OSHA

(OSHA) Voluntary Protection Program (VPP) status at our shipyards and other industrial activities; over the last 16 months, we have achieved an average 31 percent reduction in civilian lost workdays due to injuries at our three installations with the highest injury rates. Increased command emphasis for safety in Operation Iraqi Freedom has played a major role in reducing the percentage of Marine Corps non-combat fatalities to combat fatalities from 42% in FY-2003 to less than 9% in FY-2004.

Our FY-2006 budget includes $4.5 million to continue development of the Military Flight Operations Quality Assurance program. We want to adapt a successful commercial aviation program to analyze performance data (i.e., "black box" data) after every flight and allow aircrew and aircraft maintenance personnel to replay a high fidelity animation of the flight and associated aircraft performance parameters. That will allow them to recognize and avoid situations where flight safety tolerances are exceeded. In addition to the safety benefit, we expect significant future savings in reduced maintenance costs.

Commander, Navy Installations

Commander, Navy Installations Command (CNI) had a productive first year in its effort to transform the Navy shore establishment into centralized shore services and support structure. The Navy is now aligned to permit mission commanders to focus on their core mission to deliver combat power, while CNI focuses on shore infrastructure support.

A key CNI accomplishment was to implement a Capabilities Based Budgeting (CBB) process. This annual, zero-based analysis links the delivery of specific shore functions to their resources, and allows managers to predict how varying resource inputs alter the performance capability of that shore function. Identifying the risks in delivering service at varying output levels allows Navy leadership to select the desired level of output and associated resourcing based on an evaluation of these risks. This process allows us to better align shore support services with mission customers' requirements. CNI is now expanding this effort to derive common base support models with the other military services.

Port Operations Capability Levels

[illegible]	Capability Level 2	[illegible]	Capability Level 4
Spill Response w/in 15 minutes	Spill Response w/in 30 minutes	Spill Response w/in 1 hour	Spill Response > 1 hour
Berthing & Hotel Services Full Service 24/7	Berthing & Hotel Services Full Service during Normal Work Hours w/ budgeted O/T	Berthing & Hotel Services Full Service during Normal Work Hours Only	Berthing & Hotel Services Full Service during Limited Work Hours
Ship Moves Full Tug Service, 24/7 Surge Capable	Ship Moves Full Tug Service, Surge Capable w/in budgeted O/T	Ship Moves Full Tug Service w/in Established Working Hours	Ship Moves Full Tug Service Limited Working Hours

Strategic Sourcing

The DoN continues to seek efficiencies in its business processes. We want to focus on finding the most cost efficient means to support our war fighters.

There are a number of approaches to achieve this goal, e.g., eliminating an unnecessary function or one with marginal benefit; re-aligning a function to improve efficiency; or competing a function to see if it can be provided more effectively or at a lower cost by private industry. We have committed to review approximately 30,000[4] positions using the OMB Circular A-76 process and approved OMB alternatives (e.g., military to civilian conversions) by FY-2008. We are focusing studies on those functions that are not critical or core to our military operations, are readily available and can potentially be performed more effectively by the private sector.

We recognize the difficulty these studies have on employee morale. However, the gains in clearly defining the Government's requirement with resulting savings warrant the continued use of A-76 competition and approved OMB alternatives to determine the most cost-effective service provider. Competition between in-house and contractor work force benefits the DoN and taxpayer in the long run. OMB Circular A-76 competitions generate on average 36 percent cost avoidance. Our workforce is among the best in the world and has responded to the challenge by winning over 80% of the A-76 competitions.

Utility Privatization

We are proceeding with efforts to privatize when economical our electricity, water, wastewater, and natural gas utility systems. Ten USC § 2688 provides the legislative authority to convey utility systems where economical. Privatization allows installations to focus on core missions, relieving them of activities that can be done more efficiently and effectively by others. Privatization can help us reap private sector efficiency while upgrading aged systems to industry standards without compromising safe and reliable services.

As of February 1, 2005, DoN has privatized 15 of its 645 utility systems while exempting 73 utility systems. Approximately half of the Source Selections Authority (SSA) decisions have been achieved during the past year, with the rest expected by September 30, 2005. When the current round of utilities privatization concludes in September 2005, DoN intends to pursue other alternatives to enlist industry capability. In the end, we need safe reliable utility systems that are operated in the most economical manner, and that rely on private industry wherever practicable.

Environmental Programs

The DoN has a broad array of shore based and shipboard environmental compliance, conservation, pollution prevention, and cleanup efforts.

[4] Represents about five percent of the DoN's military and civilian workforce

Shipboard Programs

The Navy is installing suites of pollution prevention equipment such as aqueous parts washers, cable cleaners, and paint dispensers on 16 ship classes at a total cost of $35 million. To date 115 of 152 planned installations are complete with the remaining installations scheduled for completion in FY-2006. Once implemented, this equipment is expected to save about $3 million per year in hazardous material procurements and disposal costs, while the Fleet will save another $12 million per year from improved maintenance processes.

The Navy is converting nearly 900 CFC-12 and over 400 CFC-114 air conditioning and refrigeration plants on its surface ships to eliminate ozone depleting CFCs and replace them with environmentally friendly coolants. We plan to complete CFC-12 conversions in 2007 and CFC-114 conversions in 2014. The total program cost is $400 million with $25 million of that total budgeted for FY-2006. Upon completion, this conversion will have eliminated nearly 3 million pounds of CFC refrigerant emissions to the atmosphere.

Operational Range Assessments

Both the Navy and the Marine Corps are conducting assessments of our land based operational range assessments to ensure their long-term viability while protecting human health and the environment. The Navy has 273 operational ranges grouped into 20 complexes while the Marine Corps has 14 ranges. The Navy has completed range condition assessments at four range complexes, with assessments underway at six more complexes. The Marine Corps expects to complete its first assessment at Marine Cops Air Station, Cherry Point, NC this year, while starting two more this year and six others in FY-2006. Both Navy and Marine Corps expect to complete their assessments by FY-2008. These assessments will help the Navy and Marine Corps develop comprehensive management plans that balance operational needs and environmental concerns.

Encroachment Update

The FY-2003 and FY-2004 National Defense Authorization acts provided important protections to military readiness. The FY-2003 Act directed the Secretary of the Interior to use authority under the Migratory Bird Treaty Act to issue a rule that would allow incidental takes of migratory birds during military readiness activities. This provision responded to a need that became apparent when a court enjoined vital military training on a Pacific island in 2002 after such training resulted in the accidental death of a small number of migratory birds. Congress provided an immediate exemption until the Secretary of the Interior could issue a regulation. The Departments of Interiors and Defense have worked on the regulation that should be finalized shortly.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE READINESS SUBCOMMITTEE

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: FISCAL YEAR 2006 MILITARY CONSTRUCTION BUDGET OVERVIEW

STATEMENT OF: MR. FRED W. KUHN
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(INSTALLATIONS)

MARCH 15, 2005

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

BIOGRAPHY

UNITED STATES AIR FORCE

FREDOLIN W. KUHN

Fredolin W. Kuhn, a member of the Senior Executive Service, is Deputy Assistant Secretary of the Air Force for Installations, Washington, D.C. He is responsible for the management, policy and oversight of the $6 billion annual Air Force installation and facility programs. These include facility management, base closures, military construction, family housing, acquisition, maintenance, operation, repair and disposal of real property.

Mr. Kuhn entered the Air Force as a Judge Advocate in April 1968. Among his many assignments, he served as Staff Judge Advocate at the wing and numbered Air Force levels. He managed two divisions and served as Director of Civil Law while assigned to the Office of the Judge Advocate General at Air Force headquarters in Washington, D.C. Mr. Kuhn commanded the Air Force Legal Services Agency prior to retiring from active duty in 1992. His professional military education includes Squadron Officer School, Air Command and Staff College, Armed Forces Staff College, Air War College and the Industrial College of the Armed Forces.

EDUCATION
1964 Bachelor of arts degree in finance, University of Notre Dame
1967 Juris doctor degree, Georgetown Law Center

CAREER CHRONOLOGY
1. 1968 - 1970, Assistant Staff Judge Advocate, 12th Flying Training Wing, Randolph Air Force Base, Texas
2. 1970 - 1974, Judge Advocate, Military Justice Division, and Counsel, Government Appellate Division, Office of the Judge Advocate General, Washington, D.C.
3. 1974 - 1978, Chief of Military Justice and Executive to the Staff Judge Advocate, Headquarters Pacific Air Forces, Hickam Air Force Base, Hawaii
4. 1978 - 1980, Staff Judge Advocate, Luke Air Force Base, Ariz.
5. 1980 - 1983, Staff Judge Advocate, Air Force Regional Engineer-MX, Norton Air Force Base, Calif.
6. 1983 - 1985, Staff Judge Advocate, 18th Combat Support Group, Kadena Air Base, Japan
7. 1985 - 1987, Staff Judge Advocate, 13th Air Force, Clark Air Base, Philippines
8. 1987 - 1989, Chief, Defense Services Division, Office of the Judge Advocate General, Headquarters U.S. Air Force, Washington, D.C.
9. 1989 - 1990, Chief, Environmental Law Division, Office of the Judge Advocate General, Headquarters U.S. Air Force, Washington, D.C.
10. 1990 - 1991, Director of Civil Law, Office of the Judge Advocate General, Headquarters U.S. Air Force,

Washington, D.C.
11. 1991 - 1992, Commander, Air Force Legal Services Agency, Washington, D.C.
12. 1992 - 2000, Deputy General Counsel, Office of the Air Force General Counsel, Washington, D.C.
13. 2000 - 2001, Principal Deputy Assistant Secretary of the Air Force for Manpower, Reserve Affairs, Installations and Environment, Headquarters U.S. Air Force, Washington, D.C.
14. 2001 - 2002, Principal Deputy Assistant Secretary of the Air Force for Installations, Environment and Logistics, Headquarters U.S. Air Force, Washington, D.C.
15. 2002 present, Deputy Assistant Secretary of the Air Force for Installations, Washington, D.C.

AWARDS AND HONORS
Legion of Merit with oak leaf cluster
Meritorious Service Medal with four oak leaf clusters
Stuart M. Reichart Award for Air Force's outstanding senior attorney
2000 Presidential Meritorious Executive Rank Award
2001 Exceptional Civilian Service Medal

BAR ADMISSIONS
U.S. District Court for the District of Columbia

(Current as of March 2002)

Mr. Chairman, Representative Ortiz, and distinguished members of the committee, the strength and flexibility of airpower and our joint warfighting success in operations around the world is made possible by three interdependent factors; outstanding Airmen, superior weapons platforms, and an agile support infrastructure. The Air Force FY 2006 military construction (MILCON) submission is our commitment to these three factors. It provides our Airmen and their families the proper facilities to work and live, which in turn will enable them to better execute our air and space missions. This year's Air Force MILCON budget request is the largest in 14 years, over $4.7 billion, with increases across the spectrum of air and space operations and throughout our Total Force. Our FY 2006 Military Family Housing (MFH) submission will keep us on target to eliminate inadequate housing. The Air Force is committed to funding facility restoration and modernization at a 67-year recapitalization rate by FY 2008, and funding facility sustainment consistent with OSD's Facility Sustainment Model (FSM). Sound investment in our installations allows us to take care of our people and their families through quality of life and work place improvements.

INTRODUCTION

Air Force facilities, housing, and environmental programs are key components of our support infrastructure. At home, our installations provide a stable training environment and a place to equip and reconstitute our force. Both our stateside and overseas bases provide force projection platforms to support combatant commanders. Because of this, the Air Force has developed an investment strategy focused on sustaining and recapitalizing existing infrastructure, investing in quality of life improvements, accommodating new missions, continuing strong environmental leadership, optimizing use of public and private resources, and eliminating excess and obsolete infrastructure wherever we can. Our total force military construction, family housing, and sustainment, restoration,

and modernization programs are vital to supporting operational requirements and maintaining a reasonable quality of life for our men and women in uniform and their families.

The Air Force FY 2006 President's Budget (PB) request of just over $1.3 billion for Total Force military construction reflects our highest construction priorities. It balances the restoration and modernization of current mission facilities, quality of life improvements, new mission requirements, future project designs, and limited funding for emergency requirements. This request includes $1.07 billion for active military construction, $165 million for the Air National Guard, and more than $79 million for the Air Force Reserve.

The Air Force FY 2006 PB request of $1.2 billion for the Military Family Housing investment program balances new construction, improvements, and planning and design work. It will also advance our Housing Privatization program. But, while we continue to strive to eliminate inadequate housing, we cannot allow more housing to fall into disrepair. We need your support to keep our housing operations and maintenance submission intact.

In FY 2006, we will bolster our operations and maintenance (O&M) investment in our facilities infrastructure. This investment has two components: Sustainment (S) and Restoration and Modernization (R&M), which we refer to together as our SRM program. Sustainment funds are necessary in order to keep "good facilities good." R&M funding is used to fix critical facility deficiencies and improve readiness. In this request we have dedicated $2 billion to Total Force sustainment. That is 95% of the requirement from OSD's Facilities Sustainment Model. However, in FY 2006 the Air Force's Total Force R&M funds is restricted to $173 million. This means we must defer some R&M requirements, which has a cumulative effect on Air Force facilities and infrastructure that we must reverse. In the out years we intend to invest more

heavily in critical infrastructure maintenance and repair through our O&M program in order to achieve the Air Force goal of a facility recapitalization rate of 67 years by 2008.

Overseas Military Construction

The quality of installations overseas remains a priority. Even though the majority of our Airmen are assigned in the United States, 20 percent of the force is assigned to extended tours overseas, including 29,000 Air Force families. Overseas base infrastructure is old and progressively deteriorating, requiring increased investment to replace and maintain. Host nation funding helps, but it is not enough. We also must provide supplemental funding to support time-critical infrastructure necessary for the Global War on Terror. The FY 2006 request for overseas construction includes $193 million for 18 separate infrastructure and quality of life projects in the United Kingdom, Germany, the Azores, Italy, Turkey, Guam, and Korea. All projects are in places designated as enduring locations by regional commanders, as described in the Global Basing Strategy.

In addition, we want to thank you for the essential overseas FY 2004 MILCON funding you approved in the Emergency Supplemental Appropriations Act (H.R. 3289). The supplemental provided essential construction projects in Southwest Asia and at critical en-route airlift locations directly supporting ongoing operations in that region.

Planning and Design/Unspecified Minor Construction

This year's Air Force MILCON request includes almost $96 million for planning and design (P&D), including $40.4 million for military family housing. The request includes $79 million for active duty, $12.9 million for the Air National Guard, and $3.8 million for the Air Force Reserve. These funds will allow us to complete the design work for FY 2006 construction programs and to start

the designs for FY 2007 projects, allowing us to award contracts that year. However, P&D funds for Congressional inserts and directed designs are not funded in the President's Budget request. They are accomplished at the expense of other Air Force designs. We would greatly appreciate your assistance ensuring adequate P&D funding for any Congressional inserts.

This year's request also includes $24 million for the Total Force unspecified minor construction (UMC) program, our primary means for funding small, unforeseen projects that cannot wait for the normal military construction process. Because these projects emerge over the year, it is not possible to predict the total funding requirements. When UMC requirements exceed our funding request, we augment them by reprogramming available MILCON construction funds.

SUSTAIN, RESTORE, AND MODERNIZE OUR INFRASTRUCTURE

The Air Force remains focused on sustaining, restoring, and modernizing our infrastructure. In 2006, we have increased sustainment funding to keep our "good facilities good" and targeted limited Restoration and Modernization (R&M) funding to fix critical facility deficiencies and improve readiness.

Our sustainment program is aimed at maximizing the life of our infrastructure by keeping our facilities in good condition. Without proper sustainment, our infrastructure wears out more rapidly. In addition, commanders in the field use O&M accounts to address facility requirements that impact their near-term readiness.

When facilities require restoration or modernization, we use a balanced program of O&M and military construction funding to make them "mission ready." Unfortunately, restoration and modernization requirements in past years exceed available O&M funding, causing us to defer much-needed work. The restoration and modernization backlog is projected to grow to nearly

$9.8 billion in 2006. It is important for us to steadily increase the investment in restoration and modernization in order to halt the growth of this backlog, while fully funding sustainment to maximize the life of our good infrastructure

The Air Force Total Force sustainment funding in FY 2006 is $2.0 billion, 95% of the amount called for by the Facility Sustainment Model (FSM) and consistent with established OSD goals. The FY 2006 Total Force R&M funding is $173 million. This budget carefully balances sustainment, restoration, modernization, and military construction programs to make the most effective use of available funding in support of the Air Force mission.

CONTINUE DEMOLITION OF EXCESS, OBSOLETE FACILITIES

In addition to modernizing and restoring worn out facilities, we also demolish excess and obsolete facilities. This ensures funds are spent on facilities we need, not on sustaining ones we do not. For the past seven years, the Air Force has aggressively demolished or disposed of facilities that are unneeded or no longer economically viable. From FY 1998 through FY 2004, we demolished 18.5 million square feet of non-housing building space. This is equivalent to demolishing more than three average size Air Force installations and has allowed us to target our infrastructure funding to maintain more useful facilities. While this demolition cost us $221 million in O&M funding in the short term, it saves us money in the long term. For FY 2005 and beyond, the Air Force will continue to identify opportunities to eliminate unnecessary facilities.

INVEST IN QUALITY OF LIFE IMPROVEMENTS

The Air Force sees a direct link between readiness and quality of life. When Airmen deploy, time spent worrying whether their families are safe and secure is time not spent focusing on the mission. Quality of life initiatives are critical to our overall combat readiness and to

recruiting and retaining our country's best and brightest. Family housing, dormitories, and other quality of life initiatives reflect our commitment to our Airmen.

Family Housing

The Air Force Family Housing Master Plan details our Housing military construction, O&M, and privatization efforts. It is designed to ensure safe, affordable, and adequate housing for our members. To implement the plan, our FY 2006 budget request for the family housing investment program is more than $400 million over the FY 2005 budget. Consistent with Department of Defense Strategic Planning Guidance, the Air Force intends to eliminate inadequate family housing units in the United States by 2007, accelerate funding at four northern tier bases one year earlier than originally planned, and eliminate inadequate overseas family housing units by 2009. We thank you for your assistance in helping keep us on the path to meet these goals.

For FY 2006, the $1.2 billion requested for our housing investment program will provide over 2,900 new homes at 17 bases, improve more than 2,000 homes at 16 bases, and support privatization of more than 2,200 homes at three bases. An additional $767 million will be used to pay for maintenance, operations, utilities and leases to support the family housing program.

Dormitories

We are just as committed to providing adequate housing for our unaccompanied junior enlisted personnel. We are making great progress in our Dormitory Master Plan, a three-phased dormitory investment strategy. Phase I, eliminating central latrine dormitories, is complete and we are now concentrating on the final two phases of the investment strategy. In Phase II we are building new dormitories to eliminate our room shortage. In Phase III, we will replace existing

dormitories at the end of their useful life with a standard Air Force-designed private room to improve our young Airmen's quality of life.

The total Air Force requires 60,200 dormitory rooms. It will cost approximately $711 million to fully execute the Air Force Dormitory Master Plan. That will replace all inadequate permanent party dormitory rooms by FY 2007 and all inadequate technical training dormitories by FY 2009. This FY 2006 budget request moves us much closer toward these goals, requesting $184 million for eight dormitory projects – creating 1,648 new rooms for unaccompanied personnel at both stateside and overseas bases. With this request, we will reach 47% of our final permanent party goal and 19% of our technical training goal.

Fitness Centers/Family Support Centers

Along with housing, fitness centers are a critical component of the Air Force's quality of life. Our expeditionary nature requires that Airmen deploy to all regions of the world, and into extreme environments. They must be physically prepared to deal with these challenges. Our Airmen must be "fit to fight." Under our new fitness program, Airmen are devoting more time and energy to physical fitness. As a result, fitness center use has increased dramatically. The Air Force Fitness Center Master Plan prioritizes requirements based on need, facility condition, MAJCOM input, Operations Tempo, and a location's remoteness or isolation. The FY 2006 military construction program includes two fitness centers: Charleston Air Force Base (AFB), SC and Vandenberg AFB, CA.

Family Support Centers are also critical to the quality of life of our Airmen and their families. They provide needed support services and ensure a strong sense of community on our bases. This is especially important in overseas locations where our Airmen and their families are separated from cultural and community support networks they are accustomed to in the United States. For them, our

Air Force family becomes their primary support structure, especially when a spouse is deployed. The FY 2006 submission includes a new Family Support Center at Aviano Air Base, Italy.

ACCOMMODATE NEW MISSIONS

Our Airmen are the best in the world, but superior weapons have also played a key role in recent joint warfighting successes in the Global War on Terrorism. Advanced weapon systems enable our combatant commanders to respond quickly in support of national security objectives. The FY 2006 Total Force new mission military construction program consists of 40 projects, totaling more than $402 million, and supports core modernization, beddown of new missions, and expansion of existing missions. These include Global Hawks at Beale AFB, California; Predator force structure changes at Indian Springs Air Force Auxiliary Field, Nevada; Combat Search and Rescue aircraft beddown at Davis-Monthan AFB, Arizona and a HC-130P simulator facility at Kirtland AFB, New Mexico; a Distributed Common Ground Station at Hickam AFB, Hawaii; and small diameter bomb facilities at RAF Lakenheath, United Kingdom. In particular, two new systems, the F/A-22 Raptor and the C-17 Globemaster III, require extensive construction support.

The F/A-22 Raptor is the Air Force's next generation air superiority fighter, but it is equally capable attacking ground targets or gathering intelligence data. Langley AFB, Virginia, will be home for the first operational F/A-22 squadrons. Flight training, weapons training, and aircraft battle damage repair training will be conducted at Tyndall AFB, Florida, Nellis AFB, Nevada, and Hill AFB, Utah. Our FY 2006 military construction request includes one F/A-22 project at Langley AFB, one project at Tyndall AFB, two projects at Nellis AFB, and one project at Hill AFB for a total of $47.5 million. These projects support the F/A-22 initial beddown and training and will not be affected by the final aircraft purchase number.

The C-17 Globemaster III is replacing our fleet of C-141 Starlifters. C-17s will be based at Elmendorf AFB, Alaska; Travis AFB and March Air Reserve Base (ARB) in California; Dover AFB, Delaware; Hickam AFB, Hawaii; Jackson Air National Guard Base, Mississippi; McGuire AFB, New Jersey; Altus AFB, Oklahoma; Charleston AFB, South Carolina; and McChord AFB, Washington. Thanks to your support, the construction funding requirements for Charleston and McChord are complete. The request for FY 2006 includes two projects for $6 million at Dover AFB, three facility projects for $12.6 million at Travis AFB, and two facility projects for $54.8 million at Elmendorf AFB.

OPTIMIZE USE OF PUBLIC AND PRIVATE RESOURCES

Housing Privatization

We would also like to thank you for eliminating the cap on the Department of Defense Family Housing Improvement Fund. Our Airmen and their families appreciate your staunch commitment to their quality of life. To date, we have awarded thirteen privatization projects providing 10,977 privatized homes for our Air Force families. The Air Force has leveraged an investment of $173 million with private sector funding to yield $1.6 billion in total development.

Last year, we completed three privatization projects (Elmendorf AFB, Alaska; Robins AFB, Georgia; and Dyess AFB, Texas) and have three more under construction (Wright-Patterson AFB, Ohio; Patrick AFB, Florida; and Kirtland AFB, New Mexico). We recently awarded five new privatization projects at Moody AFB, Georgia; Little Rock AFB, Arkansas; Buckley AFB, Colorado; Hanscom AFB, Massachusetts; Hickam AFB, Hawaii; and awarded the second phase of the project at Elmendorf AFB. Two years ago we set a goal to privatize 60% of US-based family housing by 2007. With this budget we are on track to beat that goal by an additional 12%. The FY

2006 request includes $65 million to start privatizing more than 2,200 units at three more bases: Peterson AFB and the US Air Force Academy in Colorado; and F. E. Warren AFB, Wyoming.

Utility Privatization

In addition to privatizing housing, the Air Force is interested in privatizing utilities where it makes economic sense and does not adversely affect readiness, security, or mission accomplishment. Our installations are key to our operational capabilities. Our network of bases provides necessary infrastructure for deploying, employing, and sustaining air and space operations and re-deploying and reconstituting the force afterwards. Our bases are also the training platforms from which skilled Airmen learn their trades and prepare for deployment. Reliable utility services are essential to operations at every Air Force base.

To date, under OSD's utilities privatization program, the Air Force has conveyed 10 systems, with a plant replacement value in excess of $230 million. By the time the program is complete, we anticipate as many as 100 of about 500 systems could be privatized. We are on track to meet 95% of OSD's milestone: completing Source Selection Decisions by September 30, 2005. During the course of this process, we expect that many competitive solicitations will end up as sole source procurements from local utility companies.

CONCLUSION

The readiness of our fighting force, now and in the future, depends upon our infrastructure. We will continue to enhance our installations' capabilities and our Airmen's quality of life and ensure Air Force infrastructure remains ready to support our global operations.

QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

MARCH 15, 2005

QUESTIONS SUBMITTED BY MR. FORBES

Mr. FORBES My time is up but if at some time you could also get back to me, I know that China and Russia are increasing their military influence or trying to in central Asia, and whether or not that is going to pose a threat to our long-term efforts to establish long-term bases and facilities in that region.

Secretary GRONE. [The information was not available at the time of printing.]

QUESTIONS SUBMITTED BY MR. TAYLOR

Mr. TAYLOR. Secretary Penn, while I have you, I just on Saturday visited—and I realize you have only been on the job a couple of days, but on Saturday I visited some brand new family housing built to take care of the sailors at Homeport Pascagoula. And when I say brand new, they have not even been occupied yet.

With this round of BRAC, should Pascagoula be marked for closure or mothballing or whatever, what becomes of that housing? And the reason I ask is the housing is located almost equal distance between Homeport Pascagoula and Keesler Field in Biloxi, Mississippi.

What I am curious is, is there a mechanism where another branch of the service could ask of that, because the absolute last thing I want to see is this housing built at taxpayers' expense either allowed to fall into disrepair for lack of use or, worse yet, be sold for pennies on the dollar in some brother-in-law deal that just makes all of us look bad.

If I am not mistaken, this is not that. I think this was actually paid for with taxpayer funds. There was some talk at some point of transferring it over to a public-private venture, but the word I got on Saturday that it was actually taxpayer money that built that.

Secretary PENN. [The information was not available at the time of printing.]

Mr. TAYLOR. Secretary Penn, one thing I did notice at Roosevelt Roads—I am a scrounger by nature, I literally built a boat out of other people's junk, of course, it looks like it—but one of the things that I noticed is that at Roosevelt Roads—I come from hurricane country. Loss of power is something we anticipate every August and September, and therefore almost every community one of the things they really place a premium on are generators for the courthouse, for the jail, for the police and fire departments.

One of the things I did notice at Roosevelt Roads, on the good side, is that the Navy had done a very good job of pulling almost every stick of furniture out of there, because I did not want to see anything wasted.

On the not so good side, and I do want to compliment the young lieutenant commander who rode me around that Saturday, who gave up his Saturday and did a great job, one of the things I did notice is there were probably 100 generators of various capacities, some of them in the hundreds of kilowatts, that the Navy had planned on leaving behind.

I would ask that you take another look at that. I think that given that local communities can use them, given that the guard and reserve, particularly engineering battalions have left behind in Iraq almost all of their generators, I would hope that the Navy, again, using our great CBs, using the reserve capacity that you have, using possibly the Puerto Rican National Guard engineering units, I hate to see that transferred to the next person who buys those buildings. They are going to get a bargain anyway. They do not need a bargain plus that.

Secretary PENN. [The information was not availabe at the time of printing.]

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