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# INQUIRY INTO U.S. COSTS AND ALLIED CONTRIBUTIONS TO SUPPORT THE U.S. MILITARY PRESENCE OVERSEAS

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## REPORT

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

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# Executive Summary

*"We must make every dollar count."*

*Leon Panetta*
*Secretary of Defense*
*December 18, 2012*

The United States spends more than $10 billion a year to support our permanent military presence overseas. And that does not include military personnel costs or spending to support the war in Afghanistan.

Nearly 70 percent of that $10 billion is spent in Germany, the Republic of Korea, and Japan. The fact that such a high percentage of our overseas spending involves those three countries is not surprising. Germany is among our most important partners in the North Atlantic Treaty Organization (NATO), an alliance President Obama has rightly called "indispensable to global security and prosperity." The U.S. – Japan alliance is, and will continue to be, a cornerstone of our engagement in the Asia Pacific region. And our alliance with the Republic of Korea is central to both our strategic interests in the Asia Pacific and our ability to deal with the unpredictable and frequently aggressive behavior of the North Korean regime.

Major U.S. force posture initiatives are either underway or under consideration that will define our relationship with NATO and our allies and partners in the Asia Pacific for decades to come. As we renew our commitments to these critical relationships, we must also look for ways to support our strategic goals while avoiding excessive and unsustainable costs. With that in mind, the Senate Armed Services Committee conducted a review of certain costs associated with U.S. military presence in Germany and the Asia Pacific, including how the burden of costs is shared between the U.S. and our allies, the impact of planned posture changes on those costs, and the spending and oversight of foreign government payments – particularly in-kind payments used for military construction projects. (U.S. burden-sharing agreements with Korea and Japan both include in-kind payments. In addition payments from the German government to compensate the United States for improvements made to facilities on U.S. bases in Germany are almost exclusively in-kind.) The Committee's review identified a number of concerns which are summarized below.

**Residual Value Compensation in Germany**

In Germany, force reductions will result in the return of a large number of U.S. facilities to the German government. These returns will likely generate significant payments from Germany for the "residual value" of U.S. investments in those facilities. The Committee's review of how the Department of Defense (DOD) has spent residual value payments from previous facility returns raises concerns about the use and oversight of such payments going forward. Those concerns are particularly strong with respect to in-kind payments. In-kind refers

to non-cash payments, such as the provision of services or facilities that have cash value. Notwithstanding the Committee's concerns, the Department has said that it believes its practices are consistent with statutory requirements relating to residual value.

- **Payments-in-kind have replaced cash in residual value settlements** – While the law permits DOD to negotiate for residual value payments in-kind rather than in cash, in-kind settlements are supposed to be a last resort when cash negotiations have been unsuccessful. Despite that, according to the DOD Inspector General (IG), "all residual value settlement agreements completed after 1997 with either Germany or the U.K. were settled for [payment-in-kind]." In fact, the expectation that negotiations will conclude with an in-kind settlement has so permeated the process that neither the Installation Management Command - Europe (IMCOM-E), which conducts residual value negotiations on behalf of the Army, nor U.S. Air Force - Europe (USAFE), even discusses the potential for cash settlements in their negotiations with Germany.

- **Required Congressional notifications nonexistent or inaccurate** – The law requires DOD to notify Congress before beginning residual value negotiations for payment-in-kind. The Committee's review revealed that the Department does not comply with that requirement. The law also requires the Secretary of Defense to certify that, if projects were not funded with payment-in-kind, "it would be necessary to provide for the project in the next [Future Years Defense Program]." (The FYDP is a planning document that includes priority military construction projects for which the Department intends to seek appropriations.) While those certifications are provided to the Congress, the Committee's review of twelve military construction projects for which the use of payments-in-kind was approved revealed that none was ever submitted for FYDP consideration. In fact, IMCOM-E allocates residual value payments to projects unlikely to be included in the FYDP.

- **U.S. Army accepts $60 million in-kind advance from German government** – In 2008, citing an "acute" need for construction funds, IMCOM-E solicited and accepted an approximately $60 million advance payment-in-kind from the German government to be repaid with future U.S. facility returns to the German government. Congress was not informed of the advance when it was accepted, despite the statutory requirement that DOD notify Congress before even entering into negotiations for residual value payment-in-kind. There are serious questions as to whether the solicitation and expenditure of an advance is consistent with fiscal law. As of August 2012, IMCOM-E had programmed more than $43.5 million of the advance for military construction projects and had spent more than $9 million. No facility returns have yet been applied against that debt.

- **Residual value payments directed to questionable projects** – Unlike cash payments, which are placed in a special account and may only be used for maintenance, repair and environmental restoration, payments-in-kind may be used for military construction projects. The Committee's review of projects to which residual value payments-in-kind have been directed raises concerns. For example:

- IMCOM-E programmed more than $6 million for a furniture storage warehouse in Grafenwoehr, Germany. Documents state that a new warehouse was "the most cost effective method to satisfy the requirement." However, the Committee's review of the Army's flawed Economic Analysis revealed the furniture warehouse was actually the most, rather than least expensive of the alternatives considered. The Committee asked the Department to reconsider the decision to build the warehouse and the Department has since asked the Army to put the project on hold.

- IMCOM-E has directed about $200,000 in residual value in-kind payments to sunroom additions for senior officer homes in Stuttgart, Germany. The decision to build the sunrooms resulted from complaints by the then Chief of Staff of U.S. Africa Command that the homes were too small. Before the 200 square foot additions, the homes were each 2,490 square feet, well above DOD's minimum size standard.

**Costs Associated with the U.S. Military Presence in the Republic of South Korea**

U.S. Forces Korea (USFK) is repositioning and consolidating forces in South Korea pursuant to two agreements. One of those, the Yongsan Relocation Plan (YRP), was initiated by South Korea and will result in the move of U.S. forces from Yongsan to Camp Humphreys, about 40 miles south of Seoul. The second, called the Land Partnership Plan (LPP), involves a repositioning and consolidation of forces mostly from areas north of Seoul to Camp Humphreys and Daegu, also south of Seoul. The Committee reviewed U.S. costs associated with implementing those plans, South Korean contributions to U.S. costs made under bilateral "Special Measures Agreements" (SMA), and USFK spending and oversight of SMA payments.

- **U.S. costs to support force posture changes are significant** – U.S. costs associated with implementing the force posture changes in South Korea will be significant. For example, U.S. costs associated with implementing the LPP are estimated at $3.2 billion, and that does not include an estimated $100-$200 million in transition costs for sustaining facilities until the move is completed. Once the moves are complete, the U.S. will be responsible for costs associated with operating and maintaining facilities. While DOD has said that the force posture changes will "reduce[] the overall cost to maintain redundant U.S. facilities," such a reduction – if it is achieved – will not likely be realized for several years.

- **South Korean Special Measures Agreement contributions have not kept up with U.S. costs** – Beginning in the 1990s, the United States and South Korea signed a series of "Special Measures Agreements" (SMA) under which South Korea began contributing toward U.S. costs associated with maintaining forces in the country. The Committee's review found that South Korean SMA contributions are not keeping pace with the growth in U.S. costs. For example, while South Korea's estimated SMA contributions grew by about $42 million between 2008 and 2012 (from approximately $723 million to $765 million), U.S. non-personnel costs increased by more than $500 million during the same period ($592 million to nearly $1.1 billion).[1]

[1] South Korean funding for the Yongsan Relocation Program and for South Korean obligations under the Land Partnership Plan are not part of the SMA.

- **Oversight weaknesses in USFK spending of South Korean contributions** – Aggressive oversight of USFK's use of South Korean contributions is important to ensuring that the benefit of these contributions to U.S. taxpayers is maximized. USFK construction projects built with South Korean in-kind contributions are not reviewed by the Department of the Army, undergo limited review at U.S. Pacific Command and the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, and are not authorized by or even notified to Congress.

- **SMA contributions directed to projects of questionable value** – Every dollar in costs that can be met with a South Korean contribution is a dollar less in U.S. taxpayer funds that must be spent. It is therefore critical that USFK direct South Korean contributions to mission-critical requirements. Diverting funds to nonessential or economically unsound projects can leave U.S. taxpayers on the hook for unmet requirements and create future sustainment obligations. The Committee review found that USFK has used or is considering the use of South Korean contributions on projects of questionable value or that do not make economic sense. For example:

  - USFK's plans for Camp Humphreys include a $10.4 million museum for the Army's 2nd Infantry Division. USFK has said the museum was a "command requirement" and is "required to provide adequate services to the increased population associated with restationing U.S. Forces as part of the Land Partnership Program."

  - U.S. Army Garrison at Yongsan invested $1.4 million to consolidate two dining facilities. Analysis supporting that decision purported to show that the $1.4 million investment would reduce annual operating costs by $295,000 per year. The "savings" identified, however, resulted from the garrison excluding from the cost-benefit analysis labor costs paid with South Korean SMA funds– in effect, treating the SMA contribution as "free" money.

- **Proposed family housing plan portends dramatic increase in long-term U.S. costs** – Recent changes in policy have led to a more than doubling in the number of Command Sponsored Families in South Korea. The Army has proposed a public-private partnership – called the Humphreys Housing Opportunity Program (HHOP) – in part to build family housing to accommodate that increase. The Committee's analysis suggests that the rent the U.S. would pay to the private developer for the 850 HHOP units would cost U.S. taxpayers $630 million more than the standard overseas housing allowance provided to military families over 20 years. That $630 million figure does not include an additional $125 million that the Army has agreed to direct to HHOP as an equity contribution. In addition to its cost, the Committee also has questions about the legality of the plan.

**Costs Associated with the U.S. Military Presence in Japan**

The Government of Japan (GOJ) provides funding to support the U.S. military presence through two streams, the Facility Improvement Program (FIP), a voluntary program under which Japan provides funding for U.S. infrastructure and facilities, and a "Special Measures

Agreement" (SMA), which sets Japan's contributions to U.S. labor, utilities, and training relocation costs. In 2012, Japan contributed approximately $2 billion through the SMA and FIP to support the U.S. military presence.[2]

- **Japan's burden-sharing contributions have not kept pace with U.S. costs** – For example, Japan's contributions to FIP have declined significantly in the last twenty years. At its peak in 1992, Japan's contribution to FIP amounted to more than $1 billion. That figure has fallen 80 percent to approximately $200 million for 2012. In addition, while Japan's contribution (in yen terms) to U.S. utility costs has not changed since 2009, U.S. costs are growing considerably. For instance, the U.S paid approximately $71 million for utilities in 2009 and projections are that the U.S. will pay nearly $217 million in 2015.

- **Potential problems in shift in Japanese contributions from SMA to FIP** – While there may be reductions in Japanese contributions under labor and utility formulas contained in the most recent SMA, the U.S. and Japan have agreed that any such reductions would be applied to FIP to ensure Japan meets its commitment to maintain burden-sharing contributions at 2010 levels through 2015. The Committee's review suggests, however, that shifting funding from SMA to FIP carries risk. Each dollar that Japan contributes under the SMA directly offsets a dollar in U.S. taxpayer funds. The same cannot be said for the FIP program, as about 20 percent of Japan's FIP contributions are reserved for Japan-initiated projects. Moreover, Japan ultimately chooses which U.S. -proposed projects receive the remaining 80 percent of FIP funds.

- **U.S. FIP priorities often go unfunded** – While the list of projects that will secure funding is negotiated between the U.S. and Japan, GOJ ultimately decides whether or not a U.S. priority will be funded. The Committee's review found that U.S. Forces Japan's top FIP priorities are often not funded and sometimes remain on the list for years. Of USFJ's top 50 priorities on the 2011 Integrated Priority List, 22 projects were not funded. Of the top 100 USFJ priorities, 53 projects were not funded. For example, among those unfunded U.S. priorities was a fire station at Camp Hansen on Okinawa, which was priority number eight on the U.S. list. Two years later, the fire station is still on the FIP list as a "new projects to be negotiated of future years funding when available."

**Costs of Force Posture Changes in the Asia Pacific**

U.S. Forces Japan (USFJ) and U.S. Pacific Command (PACOM) have proposed a number of posture changes in the Pacific, including reducing the U.S. military presence on Okinawa. The Marine Corps' preliminary cost estimate to implement the proposed changes is $13.7 billion. However, Congress has declined to fund many of these initiatives pending the completion of various requirements, including the development of detailed cost estimates. Uncertainty about those costs and Japan's contributions cautions against lifting the Congressional restriction until such information is made available.

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[2] Outside the SMA and FIP, Japan also pays rent to private landowners on whose land U.S. military facilities are located.

- **Reduction in Japanese contributions to support Marines move increases U.S. costs** – In April 2012, the U.S. and Japan issued a statement indicating that Japan would no longer provide $3.29 billion in support it had previously committed to the cost of moving U.S. Marines from Okinawa to Guam. That contribution, which Japan had proposed making though "Special Purpose Entities" (SPEs), was intended to pay for the construction of housing and utility infrastructure on Guam, with the possibility of Japan recouping some of that investment over time through rental and utility payments. The loss of the SPEs leaves the U.S. responsible for substantial military construction costs that would previously have been funded by Japan. In fact, current estimates include $400 million to construct housing and $600 million to fund utility upgrades on Guam that would previously have been funded by the SPEs.

- **Potentially large U.S. costs not yet quantified** – Planned force posture changes involve moving thousands of Marines to Australia, Guam, and Hawaii over a period of decades. Before a majority of the construction required to support these moves can begin, environmental studies on Guam and Hawaii must be completed. Detailed master planning cannot occur until these studies are complete. As a result, the Marine Corps $13.7 billion preliminary cost estimates may not be accurate. Indeed, the current estimates do not account for some potentially large costs. For example:

  - The estimate does not include the cost of additional lift and other resources that might be required to support geographically dispersed Marines.

  - The Marines estimate of $2.5 billion to move forces to Hawaii is highly speculative as a study of possible locations is yet to be completed.

  - The Marines preliminary estimate for the Australia portion of the plan is $1.6 billion. However, an assessment of what facilities might be needed in Australia has not yet been completed and formal negotiations with Australia have yet to begin.

- **Completion of a Futenma Replacement Facility at Camp Schwab remains unlikely** – A 2006 agreement between the U.S. and Japan provided that approximately 8,000 U.S. Marines and their dependents would move from Okinawa when Japan made "tangible progress" toward completing a facility to replace Marine Corps Air Station (MCAS) Futenma. The agreement set the timeline for completing the Marine move at 2014. In 2012, however, the move of Marines was "de-linked" from the requirement for tangible progress on the Futenma Replacement Facility (FRF) and the 2014 date was abandoned. The government of Japan has said that it still intends to build the FRF at Camp Schwab, a plan that depends on a massive landfill of the sea surrounding Camp Schwab. The Committee's observations support our previous assessment that the landfill will cost more and take longer than even the most conservative estimates have projected to date.

- **Futenma disrepair requires action - Japan's contribution in question** – Given that the completion of the FRF is, at best, far in the future, MCAS Futenma will continue to be a critical military asset. However, expectations that MCAS Futenma would be closed have led to a significant maintenance and repair backlog at the base. As of 2012, the Marines

had identified approximately $180 million in necessary construction and renovation projects, including the construction of a runway overrun to accommodate the new V-22 Ospreys and minimize the risk of serious damage to aircraft. While GOJ has agreed to "mutually" contribute to Futenma's sustainment until the FRF is constructed, the U.S. faces the real prospect of bearing the brunt of these renovation and construction costs. Indications are that any GOJ contributions to Futenma sustainment would likely come from FIP – at the expense of other U.S. priorities in Japan.

## Conclusions of the Senate Armed Services Committee

**Conclusions Relating to Residual Value Compensation in Germany**

**Conclusion 1: The Department of Defense (DOD) has failed to pursue cash settlements for facilities returned to the German government and has not complied with the requirement that Congress be notified about in-kind residual value negotiations.** In-kind residual value settlements are supposed to be a last resort when cash negotiations have been unsuccessful. According to the DOD Inspector General, however, all residual value settlement agreements completed after 1997 with Germany have been settled for payment-in-kind. Neither Installation Management Command - Europe (IMCOM-E), which conducts residual value negotiations on behalf of the Army, nor U.S. Air Force - Europe (USAFE), even discusses the potential for cash settlements in their negotiations with Germany. In addition, while the law requires DOD to notify Congress before beginning residual value negotiations for payment-in-kind, the Department has not complied with that requirement.

**Conclusion 2: The use of in-kind residual value payments to fund non-priority military construction projects is inconsistent with Congressional intent.** The law requires the Department of Defense to certify that, if proposed projects were not funded with residual value payments-in-kind, "appropriations would be necessary and it would be necessary to provide for the project in the next [Future Years Defense Program]" (FYDP). Projects funded with German payments-in-kind include plans for a $6 million furniture storage warehouse in Grafenwoehr, Germany and $200,000 for sunroom additions for senior officer homes in Stuttgart, Germany. Neither project, however, was submitted for FYDP consideration. In fact, the Committee's review of twelve military construction projects for which the use of payments-in-kind was approved revealed that none was ever submitted for FYDP consideration.

**Conclusion 3: IMCOM-E's solicitation, acceptance, and expenditure of an "advance" residual value payment from the German government in exchange for future U.S. facility returns raises serious legal questions.** In 2008, IMCOM-E solicited and accepted approximately $60 million in advance residual value payment-in-kind from the German government. Congress was not informed of the advance when it was accepted, despite the statutory requirement that DOD notify Congress before even entering into negotiations for residual value payment-in-kind. The furniture warehouse and the sunroom additions mentioned above were among the projects for which advance funds have been expended. There are questions as to whether the solicitation and expenditure of an advance is consistent with the law.

**Conclusions Relating to U.S. Costs and South Korean Burden-Sharing Contributions**

**Conclusion 4: Burden-sharing contributions from the South Korean government made pursuant to Special Measures Agreements have not kept pace with U.S. costs.** Beginning in the 1990s, the United States and South Korea signed a series of "Special Measures Agreements" (SMA) under which South Korea began contributing toward U.S. costs of maintaining a military presence in the country. South Korean SMA contributions, however, have not kept pace with the growth in U.S. costs. For example, while South Korea's estimated SMA contributions grew from approximately $723 million in 2008 to $765 million in 2012, U.S. non-personnel costs

increased by more than $500 million during the same period, from $592 million to nearly $1.1 billion.

**Conclusion 5: There are significant weaknesses in the oversight of South Korean in-kind contributions used for military construction projects.** Under the 2009 SMA, South Korea's contributions to the Republic of Korea Funded Construction (ROKFC) program transitioned from cash to in-kind payments. South Korean in-kind contributions to the ROKFC program were about $339 million in 2012. Aggressive oversight of USFK's use of those in-kind contributions is critical to ensuring that the benefit to U.S. taxpayers is maximized. However, USFK construction projects built with South Korean in-kind contributions are not reviewed by the Department of the Army, undergo limited review at U.S. Pacific Command and DOD, and are not authorized by, or even notified to, Congress. In-kind payments are not included in DOD's annual burden-sharing reports to Congress, nor are they tracked by the DOD Comptroller.

**Conclusion 6: The use of South Korean Special Measures Agreement contributions for projects that do not make economic sense or are not mission-critical can leave taxpayers on the hook for the cost of such projects.** Every dollar in costs that can be met with a South Korean contribution is a dollar less in U.S. taxpayer funds that must be spent. Diverting funds to nonessential or economically unsound projects can leave U.S. taxpayers on the hook for unmet requirements and create future sustainment obligations. The Committee review found that USFK has used or is considering the use of South Korean contributions on questionable projects. In addition, U.S. Army Garrison Yongsan justified a $1.4 million investment by excluding from the cost-benefit analysis all labor costs paid with South Korean SMA funds – in effect, treating the Korean contribution as "free" money.

**Conclusion 7: DOD approval of the U.S. Army's plan for a public-private partnership to build family housing at Camp Humphreys would substantially increase long-term costs for U.S. taxpayers and set a troubling precedent for future military housing plans.** The Army has proposed a public-private partnership – called the Humphreys Housing Opportunity Program (HHOP) to construct housing at Camp Humphreys. The Army has requested that DOD approve a massive increase in the Overseas Housing Allowance (OHA) – from about $1,600 to $3,900 per unit per month – specifically for Camp Humphreys to support HHOP. The Committee's analysis suggests that DOD approval of such an increase would cost U.S. taxpayers $630 million more than the standard overseas housing allowance provided to military families over 20 years. That $630 million figure does not include an additional $125 million that the Army has, in effect, agreed to contribute to the cost of constructing HHOP units.

**Conclusions Relating to U.S. Costs and Japanese Burden-Sharing Contributions**

**Conclusion 8: Japan Special Measures Agreement (SMA) and Facilities Improvement Program (FIP) burden-sharing contributions have not kept pace with U.S. costs.** For example, at its peak in 1992, Japan's contribution to FIP amounted to more than $1 billion. That figure has fallen 80 percent to approximately $200 million for 2012. In addition, while Japan's contribution to U.S. utility costs has not changed since 2009, U.S. costs are growing

considerably. While the U.S paid approximately $71 million for utilities in 2009, projections are that the U.S. will pay nearly $217 million in 2015.

**Conclusion 9: Shifts in funding from the Special Measures Agreement (SMA) to the Facility Improvement Program (FIP) carry unacceptable risk for the United States.** In 2011, the U.S. and Japan agreed in that Japan would maintain its burden-sharing contributions at 2010 levels through the year 2015 and that any reductions that result from changes in the SMA formula for utility and labor contributions would be applied to FIP, which is not part of the SMA. Shifting funding from SMA to FIP, however, carries risk for U.S. taxpayers. Each dollar in Japanese contributions to the SMA directly offsets a dollar in U.S. taxpayer funds that would be spent on utility or labor costs. The same cannot be said for the FIP program. About 20 percent of Japan's FIP contributions are reserved for Japan-initiated projects. Moreover, Japan ultimately chooses which U.S. - proposed projects receive the remaining 80 percent of FIP funds. U.S. Forces Japan's top FIP priorities are often not funded and sometimes remain unfunded for years.

**Conclusions Relating to Costs of U.S. Posture Changes in the Asia Pacific Region**

**Conclusion 10: Loss of over $3 billion of Japanese contributions to defray the cost of moving U.S. Marines off Okinawa will lead to increased costs for the United States.** In April 2012, the U.S. and Japan issued a statement indicating that Japan would no longer provide $3.29 billion in support it had previously committed to the cost of moving U.S. Marines from Okinawa to Guam. That contribution, which Japan had proposed making though "Special Purpose Entities" (SPEs), was intended to pay for the construction of housing and utility infrastructure on Guam, with the possibility of Japan recouping some of that investment over time through rental and utility payments. While the new proposed force laydown will likely reduce infrastructure requirements on Guam as fewer Marines will be moving to the island, current estimates indicate that the loss of the SPEs will still leave the U.S. on the hook for $400 million to construct housing and $600 million to fund utility upgrades on Guam that would previously have been funded by the SPEs.

**Conclusion 11: Unknown costs and uncertain timeframes for implementing the planned U.S. Marine Corps force posture changes in the Asia Pacific argue for maintaining Congressional funding restrictions.** The Marine Corps $13.7 billion preliminary estimate for planned posture changes in the Asia Pacific is a rough estimate that does not account for all future costs associated with the plan. For example, the estimate does not include the cost of additional lift that might be required. In addition, the estimate of the cost of moving forces to Hawaii is highly speculative, as is the estimate for the Australia portion of the plan. Congress has declined to fund investments necessary to implement many of the planned posture changes pending the completion of various requirements by DOD, including providing detailed cost estimates. Uncertainty about those costs and other details argues for maintaining those restrictions.

**Conclusion 12: Japan's construction of a facility at Camp Schwab to replace Marine Corps Air Station (MCAS) Futenma is unlikely. Meanwhile, MCAS Futenma faces substantial renovation and military construction costs. While Japan and the U.S. have**

**agreed to "mutually contribute" to the maintenance of Futenma, the brunt of those costs will likely fall on U.S. taxpayers or come at the expense of other U.S. priorities.** Japan has stated that it intends to build a replacement for MCAS Futenma at Camp Schwab. That plan depends, however, on the construction of a massive landfill that will likely cost more and take longer than the most conservative estimates have projected. Given that, MCAS Futenma will continue to be a critical military asset. However, expectations that MCAS Futenma would be closed have led to a significant maintenance and repair backlog. The Marines have identified approximately $180 million in necessary construction and renovation projects at Futenma. While Japan has agreed to "mutually" contribute to Futenma's sustainment until the replacement facility is constructed, the U.S. faces the prospect of bearing the brunt of those costs. Further, any Japanese contributions to Futenma sustainment will likely come from the Facilities Improvement Program – at the expense of other U.S. priorities.

# Introduction

The United States spends more than $10 billion a year to support our permanent military presence overseas. That does not include military personnel costs or spending to support the war in Afghanistan. The cost of maintaining that presence in Germany, South Korea, and Japan – three critical allies – makes up about 70% of that total, costing American taxpayers nearly $7 billion a year. The United States is engaged in several force posture changes in Europe and the Asia Pacific that will affect our presence in those three countries and have long-term strategic and fiscal impacts. In March 2012, the Senate Armed Services Committee initiated a review of U.S. costs in Germany, South Korea, and Japan, including how the burden of costs is shared between the U.S. and our allies, the impact of planned posture changes on those costs, and the spending and oversight of foreign government payments – particularly in-kind payments used for military construction projects.

Over the course of the review, Committee staff reviewed thousands of pages of documents, the majority of which were provided by the Department of Defense (DOD). Staff also traveled to Germany, South Korea, and Japan where they visited military installations and met with members of U.S. European Command (EUCOM), U.S. Forces Korea, U.S. Forces Japan, and the Army's Installation Management Command (IMCOM). In Japan, staff also met with representatives of the U.S. Department of State and the Government of Japan. In addition, staff conducted meetings and interviews in the United States with officials from the Department of Defense and the Military Services. This report, which is a product of the Committee's review, consists of three sections, each examining specific issues in Germany, South Korea, and Japan respectively.

Section I of the report discusses so-called residual value payments in Germany. Residual value payments result from negotiations between the U.S. and certain host countries to determine compensation to be paid for the return of U.S. facilities to the host country. Force reductions in Germany have resulted in the return of a large number of U.S. facilities to the German government, and will continue to do so in the future. These returns will likely generate significant residual value payments from Germany. Section I describes the use and oversight of residual value payments from previous facility returns and discusses whether DOD practices are in accordance with law and regulations.

Section II examines U.S. costs associated with our military presence in South Korea and South Korean burden-sharing contributions made pursuant to the bilateral Special Measures Agreement (SMA). The section focuses on U.S. costs associated with planned posture changes in South Korea, assesses whether South Korea's SMA contributions are keeping pace with the growth in U.S. costs, and reviews the use and oversight of Korean SMA contributions. The section also discusses potential long-term costs associated with the U.S. Army's proposal to construct military family housing at Camp Humphreys.

Section III assesses Japan's burden-sharing contributions to the U.S. under the bilateral Special Measures Agreement (SMA) and the Japanese Facilities Improvement Program (FIP). It

describes the challenges of securing FIP funding for U.S. priorities and the risks associated with potential shifts in Japanese contributions from SMA to FIP. Section III also identifies potentially large U.S. costs associated with planned force posture changes in the Asia Pacific. It discusses reductions in Japan's financial support for those changes and describes pressing construction and renovation needs at Marine Corps Air Station Futenma, a critical U.S. asset in the region.

## I. Residual Value Compensation in Germany

As of August 31, 2012, there were more than 75,000 active duty U.S. forces in Europe, more than 90 percent of whom were stationed in Germany, Italy or the United Kingdom. Of those three countries, Germany was home to the largest number with more than 48,000 active duty U.S. personnel stationed there.[3] The cost to maintain those U.S. forces is significant. DOD estimates that the non-personnel related costs associated with supporting the U.S. military presence in Germany was approximately $4 billion in Fiscal Year 2012. That figure does not include nearly $3.9 billion in military personnel costs.[4]

U.S. European Command (EUCOM) is in the process of implementing force posture changes that will significantly impact the U.S. military presence in Europe. The Army's V Corps Headquarters will not return to Europe after its deployment to Afghanistan is complete in late Fiscal Year 2013.[5] In addition, the Army deactivated one heavy brigade combat team (BCT) in Europe – the 170th BCT in October 2012.[6] The Army plans to deactivate the 172nd BCT in Fiscal Year 2014, and has also said that additional forces "potentially in the range of 2,500 Soldiers, could be reduced from Europe."[7] The impact of these changes is most significant in Germany where U.S. Army Europe has said they will reduce the number of U.S. soldiers by about 25 percent by 2017.[8]

Those force reductions will result in a significant number of excess military facilities which will be returned to the German government. The United States does not own the land on which those facilities are located and cannot seek compensation for returning that land. Congress has said, however, that when *facilities* are returned to a host country, the Secretary of Defense "should take steps to ensure that the United States receives, through direct payment or otherwise, consideration equal to the fair market value of the improvements made by the United States" to those facilities.[9] Existing law authorizes negotiations with host countries to determine the value of returned facilities. The compensation that DOD receives from host nations as a result of those negotiations is called "residual value."[10]

In 1990, Congress passed legislation establishing a special account called the Department of Defense Overseas Military Facility Investment Recovery Account (DOMFIRA) into which the Department is required to deposit cash from residual value settlements. The law was

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[3] U.S. Department of Defense, *Total Military Personnel Strengths by Service, Regional Area and Country* (August 31, 2012).

[4] Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Operation and Maintenance Overview Fiscal Year 2013 Budget Estimates* (February 2012). DOD estimates are $3.1 billion for Operations and Maintenance, $444 million in Family Housing Operations and Construction, and $460 million for Military Construction. *Id.*

[5] U.S. Army, Information Paper: *Army Force Structure Reductions in Europe* (February 16, 2012).

[6] *See* 170th Infantry Brigade website, *available at* http://www.170infantry.army.mil/ (March 19, 2013).

[7] U.S. Army, Information Paper: *Army Force Structure Reductions in Europe* (February 16, 2012).

[8] U.S. Army Europe, Press Release: *DOD Announces Plans to Adjust Posture of Land Forces in Europe* (February 16, 2012).

[9] 10 USC § 2687 Note, Sense of Congress (a)(2) (2012). Status of Forces Agreements (SOFAs) in Japan and South Korea preclude the U.S. from seeking residual value. *See notes 219 and 108.*

[10] U.S. Department of Defense, Instruction Number 4165.69, *Realignment of DOD Sites Overseas* (April 6, 2005) (hereinafter "DODI 4165.69").

amended in 1992 to permit DOD to negotiate for residual value payments-in-kind, though negotiations for payment-in-kind were intended for those cases when cash negotiations have failed.[11]

According to a review conducted by the Department of Defense Inspector General (IG), since 1991, the United States has received more than $920 million in residual value compensation for excess military facilities returned to Germany. Despite the expectation that in-kind payments would be a last resort, more than 95 percent of that $920 million has been in the form of payment-in-kind rather than cash.[12]

The historical average residual value return on U.S. investments is approximately 10 percent, though the Army's Installation Management Command – Europe (IMCOM-E) has said that the amount that the U.S. will receive in exchange for future returns is hard to predict and may be lower.[13] Nevertheless, the U.S. expects to receive significant additional residual value compensation from Germany over the next several years. The U.S. has returned over 100 facilities since FY 2005 that have yet to be included in residual value settlements.[14] The current value of U.S. investments in those facilities is nearly $1.1 billion.[15] The Department has also designated 19 other facilities for closure in Germany between 2012 and 2015.[16] According to the DOD IG, U.S. investments in those 19 facilities is nearly $600 million.[17] Recently announced posture changes will result in significant additional facility returns to Germany that will also lead to residual value compensation.

Residual value compensation can be used to reduce costs associated with maintaining U.S. forces in Germany and existing law contains requirements intended to ensure that outcome. Among those requirements are provisions to keep Congress informed about residual value negotiations and settlements that involve payment-in-kind compensation. The Department of Defense has said that it believes its practices with respect to residual value are consistent with the law.[18] A Committee review, however, identified failures by the services to comply with legal requirements. In addition, it found residual value payments-in-kind being used on military construction projects of questionable value. The review also identified a number of issues

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[11] *See* Public Law 103-337 (October 23, 1992). "[T]he President should enter into negotiations for payments-in-kind only as a last resort and only after informing the Congress that negotiations for cash payments have not been successful." *Id.*

[12] U.S. Department of Defense Inspector General, Chart: *Residual Value Settlements by Country and Year* (May 2012).

[13] Email from IMCOM-E Realty Specialist to IMCOM-E Chief, Real Estate et al. (October 19, 2007). IMCOM-E has said the amount that the U.S. will receive in residual value in future negotiations is hard to predict and called 10 percent a high estimate. Committee staff meeting with IMCOM-E (August 7, 2012).

[14] Residual value negotiations typically occur years after a facility has been returned to the German government as it takes time for the German government to either sell the facility or, alternatively, to identify a government purpose and establish a market value for investments made by the U.S. in the facility.

[15] IMCOM-E, Chart: *Next Proposed RV Settlement Package* (October 2011).

[16] U.S. Department of Defense, Press Release: *DOD Announces Installation Realignments in Germany* (June 23, 2010).

[17] U.S. Department of Defense Inspector General responses to July 18, 2012 Committee staff questions (August 2, 2012).

[18] Letter from Under Secretary of Defense for Acquisition, Technology and Logistics to Senator Carl Levin (February 21, 2013).

associated with IMCOM-E's solicitation and acceptance of an approximately $60 million advance from the German government for U.S. facility returns – a payment the Committee first became aware of through a DOD IG audit of the residual value program.[19]

### *A. Military Services Fail to Pursue Cash Settlements*

While the law relating to residual value originally only contemplated the acceptance of cash compensation for facilities returned to host countries, it was subsequently amended to permit DOD to negotiate for residual value payments-in-kind.[20] However, negotiations for payments-in-kind were not supposed to replace cash negotiations. In fact, a 1994 Sense of Congress stated that negotiations for residual value payment-in-kind should only be entered into "as a last resort and only after informing the Congress that negotiations for cash payments have not been successful."[21] The Department of Defense Instruction (DODI) that specifies procedures for DOD components states that residual value "shall normally be sought as a cash payment" and authorizes payment-in-kind negotiations only as an alternate.[22] In cases where a Combatant Commander wishes to pursue negotiations for payment-in-kind, the DODI requires the Commander to submit a proposal, for approval by the Secretary, providing a rationale for payment-in-kind versus cash negotiations and indicating that "the acceptance of payment in-kind is a last resort and that discussions of cash payment have been unsuccessful." [23]

Despite those requirements, payment-in-kind has become the first option for residual value negotiations in Germany rather than a last resort. According to the DOD IG, "all residual value settlement agreements completed after 1997 with either Germany or the U.K. were settled for [payment-in-kind]."[24] In fact, the expectation that residual value negotiations will conclude with an in-kind settlement has so permeated the process that neither the Installation Management Command - Europe (IMCOM-E), which conducts residual value negotiations on behalf of the Army, nor U.S. Air Force - Europe (USAFE) even discusses the potential for cash settlement in their residual value negotiations with Germany.[25]

### *B. Congress Not Notified of Intent to Negotiate for Payment-In-Kind*

When it amended the law to provide the Department authority to negotiate residual value settlements for payments-in-kind, Congress expressed a clear interest in being kept informed about such negotiations. To that end, the law requires the Secretary of Defense to notify Congress of its intent to enter into residual value negotiations for payment-in-kind *before* such

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[19] U.S. Department of Defense Inspector General, Report: *DOD Can Improve Its Accounting for Residual Value from the Sale of U.S. Facilities in Europe* (May 4, 2012) at 11.
[20] Public Law 101-510 (November 5, 1990); Public Law 102-484 (October 23, 1992).
[21] Public Law 103–337 (October 5, 1994).
[22] DODI 4165.69 Section E.3.1.
[23] DODI 4165.69 Section 6.3.5.2.
[24] DODI 4165.69 Section 6.3.5.2; U.S. Department of Defense Inspector General, Report: *DOD Can Improve Its Accounting for Residual Value from the Sale of U.S. Facilities in Europe (May 4, 2012)* at 2.
[25] Committee staff meeting with IMCOM-E (August 7, 2012); Committee staff telephone conference with U.S. Air Force Europe (October 29, 2012).

negotiations are initiated and include a justification with that notification as to why payment-in-kind compensation was being pursued instead of cash.[26]

The Committee requested that the Department provide copies of such notifications for several recent residual negotiations that resulted in payment-in-kind settlements. The Department has been unable to produce correspondence indicating that Congress was notified of their intent to pursue negotiations for payment-in-kind in any of those cases.[27]

Not only has the Department apparently failed to meet the requirement that Congress be notified of the intent to initiate negotiations for payment-in-kind, but such settlement negotiations are apparently proceeding without the authority required under the Department's own guidance. As discussed above, the DODI requires Combatant Commanders to submit proposals, for approval by the Secretary of Defense, providing a rationale for payment-in-kind versus cash negotiations. EUCOM has been unable to produce any such proposals. In fact, the Air Force advised the Committee that it "has not prepared any proposals relative to residual value settlements" required by the DODI.[28]

### *C. Payment-in-Kind Not Used for Priority Projects*

As discussed above, originally the law only contemplated residual value cash payments and limited the use of settlement funds to facility maintenance, repair and environmental restoration at military installations in the United States.[29] While it was subsequently amended to permit the use of residual value cash payments at installations outside the United States, the law has never authorized the use of residual value *cash* payments on military construction projects either overseas or in the United States.[30]

By contrast, residual value settlements for payment-in-kind may be used for military construction projects, in addition to facility improvements and operating costs. In authorizing the use of payment-in-kind for construction projects, however, Congress sought to ensure that such compensation would be used to offset costs that the military would otherwise be forced to pay with appropriated funds. A 1994 Sense of Congress stated that "to the extent that in-kind contributions are received in lieu of cash payments in any fiscal year, the in-kind contributions

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[26] The law requires DOD to notify the House of Representatives Committees on Armed Services, Appropriations, and the National Security Subcommittee of the Committee on Appropriations, as well as the Senate Committees on Armed Services, Appropriations, and the Subcommittee on Defense of the Committee on Appropriations. 10 U.S.C. § 2687 Note (e)(3)(A)-(B).

[27] DOD did provide the Committee with a June 2, 1994 letter from then-Deputy Secretary of Defense John Deutch notifying Congress that the Deputy Secretary was authorizing the EUCOM Commander "to negotiate with the Government of Germany for a long term agreement to provide in-kind compensation for the residual value of facilities being returned." The long term agreement being sought was for $200 million in in-kind compensation over the course of five years. The Deputy Secretary's letter also states, "The Department will continue to press for cash settlements when possible." Letter from Deputy Secretary of Defense John Deutch to Hon. Ronald V. Dellums (June 2, 1994).

[28] U.S. Air Force responses to October 31, 2012 Committee questions (November 8, 2012).

[29] Public Law 101-510 Section 2921 (1990).

[30] 10 U.S.C. § 2687 Note.

should be used for projects that are *identified priorities of the Department of Defense.*"[31] Both the statute and DOD guidance contain requirements to ensure that outcome.

The law requires that the Secretary of Defense provide Congress, prior to initiating negotiations for payment-in-kind, a description of adjustments DOD intends to make in the future-years defense program (FYDP) or the DOD budget to reflect costs that DOD may no longer incur as a result of potential payments-in-kind.[32] (The FYDP is a planning document that describes how the Department intends to allocate resources, including priority military construction projects for which the Department intends to seek appropriations.) In addition, before concluding an agreement to accept a military construction project as payment-in-kind, the Secretary must certify to Congress that the project to be accepted as compensation is needed and that, if it were not funded with payment-in-kind, "appropriations would be necessary for the project and it would be necessary to provide for the project in the next [FYDP]."[33] The relevant DODI requires that Combatant Commanders submit proposals to the Secretary of Defense that describe adjustments to be made in the FYDP or the DOD budget to reflect costs that may be avoided though payments-in-kind.[34]

Notwithstanding those requirements, none of the twelve military construction projects reviewed by the Committee for which the use of payments-in-kind was approved was included in a FYDP.[35] Moreover, despite the clear Congressional intent that payment-in-kind be used on priority projects, USAFE does not even include payment-in-kind projects on its list of priority military construction projects submitted to Air Force headquarters for FYDP consideration.[36] Similarly, none of IMCOM-E projects for which payment-in-kind was approved was submitted to the Army for FYDP consideration.[37]

The law requires that DOD certify that projects would be included on the FYDP and would require appropriations were they not built with payment-in-kind. Notifications provided to the Congress relating to projects funded with payments-in-kind contained that certification.[38] Notwithstanding those certifications, however, IMCOM-E told Committee staff that payment-in-kind is actually deliberately programmed for projects that would *not* compete well for inclusion on the Army's FYDP.[39] In fact, as mentioned above, most projects built with residual value

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[31] Public Law 103–337 (October 5, 1994) (emphasis added).
[32] 10 U.S.C. § 2687 Note (e)(2)(c).
[33] 10 U.S.C. § 2687 Note (g)(1)(D).
[34] DODI 4165.69 Section 6.3.5.
[35] U.S. Department of Defense, *Payment-in-Kind (PIK) Projects 2003-2012* (May 7, 2012).
[36] U.S. Air Force, *Response to SASC Inquiry regarding USAFE Residual Value (RV) Negotiations and Payment-in-Kind (PIK)* (October 18, 2012).
[37] Email from Department of Defense Office of Legislative Counsel to Committee staff (November 8, 2012); U.S. Air Force, *Response to SASC Inquiry regarding USAFE Residual Value (RV) Negotiations and Payment-in-Kind (PIK)* (October 18, 2012).
[38] *See, e.g.*, Letter from Deputy Secretary of Defense to Senator Carl Levin (October 20, 2010) notifying the Senate Armed Services Committee that DOD intended to use payment-in-kind to accomplish site preparations for a new post exchange and commissary complex in Wiesbaden, construct a new fuel tanker purging station in Kaiserslautern, and increase the size of three family housing units in Stuttgart. The letter states that "if these military construction projects were to be carried out by the Department of Defense, appropriations would be necessary for the projects, and it would be necessary to provide for the projects in the next Future Years Defense Program." *Id.*
[39] Committee staff meeting with IMCOM-E staff (September 7, 2012).

payments-in-kind are never even submitted for FYDP consideration. The Committee is only aware of one project, discussed in more detail below, for which IMCOM-E has programmed payment-in-kind that was included in a DOD budget request to Congress. But, as described below, IMCOM-E only sought to use payment-in-kind after Congress decided not to fund the project.

### *D. Presumption for Military Construction*

Current law permits the Department to accept residual value payment-in-kind for military construction projects, facility improvements, or operating costs. There appears to be a presumption by the Military Services, however, that payments-in-kind will be used for military construction projects. In fact, the Committee is unaware of residual value payment-in-kind being used for any other purpose. Host nations may prefer that residual value payments-in-kind be used for construction rather than operating costs. As one IMCOM-E employee put it, residual value payment-in-kind provided by Germany will "stay in Germany in order to pay local national construction companies and therefore will support the local employment market."[40]

Evidence that both the German government and the United States presume that payments-in-kind will be used for military construction projects appears in residual value settlements themselves. For example, a residual value settlement agreement signed by USAFE and the German government in May 2005 for the return of 30 installations stated that the purpose of the €1.6 million settlement was for "U.S. Air Force (USAFE) construction projects at Ramstein and Spangdahlem Air Bases, Germany."[41] In response to Committee questions about the settlement, the Air Force said:

> Because [payment-in-kind] residual value recoupments must be spent in the host country where settled and there are only two air bases left in Germany, i.e., Ramstein and Spangdahlem, these are the only two locations where such [payment-in-kind] funds could be spent by the Air Force in Germany. As a result, the locations are quoted correctly in the subject residual value "settlement" agreements.[42]

However, while Ramstein and Spangdahlem may be the only air bases in Germany, military construction is not the only purpose for which residual value payments-in-kind may be used. As discussed above, the statute also contemplates the use of residual value payments-in-kind to offset U.S. operating costs in host countries or to make facility improvements.[43] The 2005 USAFE settlement, however, presumes the use of in-kind payments for construction projects. In fact, the settlement appears to actually preclude the use of payments-in-kind for any other purpose.

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[40] Email from IMCOM-E Realty Specialist to IMCOM-E Chief, Real Estate et al. (October 19, 2007).
[41] Residual Value Settlement Agreement (May 23, 2005).
[42] U.S. Air Force, *USAFE Residual Value (RV) Negotiations and Payment-in-Kind (PIK)* (November 8, 2012).
[43] 10 U.S.C. § 2687 (g) Note.

By including the intent to use settlement payments to fund construction projects, USAFE failed to consider that Congress, if properly notified, might have sought to direct payment-in-kind to facility improvements or to offset operating costs in order to, for example, reduce the need for appropriations for these purposes.[44] While the law requires that Congress be notified *before* acceptance of military construction projects as in-kind compensation, it was not until May 2008, nearly three years after the settlement, that the Department notified Congress of their intent to use funds from that 2005 settlement agreement to construct a utility and infrastructure improvement project at Spangdahlem Air Base.[45]

Asked whether agreeing in the residual value settlement to use funds for construction projects at Ramstein and Spangdahlem was consistent with the statutory requirement that Congress be notified about military construction projects before an agreement was concluded, the Air Force stated:

> Those agreements ... are not residual value "payment-in-kind (PIK) construction" agreements within the meaning of [the statute]. They are residual value "settlement" agreements and address in general terms at which bases the subject PIK funds may be used. They do not, however, specify projects for which the respective PIK funds would be used.[46]

### *E. IMCOM-E Seeks to Use Payment-in-Kind for Project Rejected by Congress*

As mentioned above, IMCOM-E has programmed payment-in-kind for a project that was originally included in a DOD budget request to Congress but was not authorized for funding. DOD's FY 2012 budget request included two Department of the Army projects planned for an Army Depot in Germersheim, Germany: one a $16.5 million infrastructure project and the other a $21 million central distribution facility.[47] According to IMCOM-E, construction of the two projects would allow for the closure of warehouse/distribution operations in Giessen, Germany.[48] The Committee did not support funding for the projects in the Fiscal Year 2012 National Defense Authorization Act (NDAA).[49]

Despite the fact that the Committee decided not to include them in the NDAA, IMCOM-E reconfigured the projects and programmed $6.7 million in payment-in-kind for them (in addition to $6.2 million in appropriated sustainment, restoration, and modernization funds).[50] In fact, the military construction project data sheet (DD Form 1391) for the project states:

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[44] Residual Value Settlement Agreement (May 23, 2005).
[45] Letter from Deputy Secretary of Defense Gordon England to Senator Carl Levin (May 2, 2008).
[46] U.S. Air Force, *USAFE Residual Value (RV) Negotiations and Payment-in-Kind (PIK)* (November 8, 2012).
[47] U.S. Department of the Army, *Fiscal Year (FY) 2012 Budget Submissions: Military Construction, Army Family Housing & Homeowners Assistance* (Justification Data Submitted to Congress February 2011).
[48] U.S. Department of the Army, *Fiscal Year (FY) 2012 Budget Submissions: Military Construction, Army Family Housing & Homeowners Assistance* (Justification Data Submitted to Congress February 2011); Committee staff meeting with IMCOM-E (September 7, 2012).
[49] 2012 National Defense Authorization Act (December 31, 2011).
[50] DD Form 1391, Project Number 81000, Germersheim Army Depot, Staging Area and Access Roads (July 20, 2012); Email from Department of Defense Office of Legislative Counsel to Committee staff (October 25, 2012).

> Payment-in-Kind (PIK) have been programmed for this project since Congress did not support MCA funding as stated in the FY12 NDA (sic).[51]

While IMCOM-E has programmed payment-in-kind for the project, it has not yet been approved by EUCOM and the Department has not yet notified Congress that it intends to proceed with construction.[52]

### *F. Army Negotiates "Advance" Payment in-Kind*

In May 2012, the Department of Defense Inspector General (IG) published results of an audit of DOD's accounting for residual value compensation for returned facilities in Europe. The DOD IG's report included as a "matter of interest" IMCOM-E's 2008 solicitation and subsequent acceptance of a $60 million payment-in-kind "advance" from the German government. The report indicated that Congress had not been notified of the advance, which the IG said was to be paid back with facility returns.[53] As of August 2012, IMCOM-E had programmed more than $43.5 million of the advance for military construction projects and had spent more than $9 million.[54] The Committee reviewed IMCOM-E's solicitation and acceptance of the advance as well as the military construction projects IMCOM-E funded with it.[55]

#### 1. IMCOM-E Cites "Acute" Need for Construction Funds

The idea of requesting an advance was discussed by IMCOM-E staff in email exchanges in the fall of 2007, one of which explained IMCOM-E's rationale for pursuing the advance:

> [We have been] releasing installations since 2000, many of them have already been sold by the [Federal Republic of Germany (FRG), meaning that] the FRG has already received significant net sale proceed portions, and they continue to do so. Why should we wait another 7 or 8 years for our entitled [residual value]

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[51] DD Form 1391, Project Number 81000, Germersheim Army Depot, Staging Area and Access Roads (July 20, 2012).
[52] Email from Department of Defense Office of Legislative Counsel to Committee staff (October 25, 2012).
[53] U.S. Department of Defense Inspector General, Report: *DOD Can Improve Its Accounting for Residual Value from the Sale of U.S. Facilities in Europe* (May 4, 2012) at 11.
[54] IMCOM-E, Chart: *PIK Funded Projects Using Advance* (August 31, 2012).
[55] According to a 2006 DOD report to Congress:

> From 1993 to 1998, when numerous facilities were being returned as part of the drawdown in Europe, the [Federal Republic of Germany] agreed to provide the U.S. with [payment-in-kind] "advances"; they agreed to build projects at enduring facilities in anticipation that eventual compensation to the U.S. for returned facilities would be equivalent to the value of the PIK compensation. Subsequent final settlements for returned facilities were offset against the advance amounts. Since return of installations has slowed considerably and there is less residual value expected to be due the U.S., the FRG no longer advances PIK amounts.

U.S. Department of Defense, *2006 Annual Report Status of Residual Value Negotiation. See also* description of advance payments-in-kind in U.S. Department of Defense, Annual Report: *Status of Residual Value Negotiations* (2002).

payments? Let us request [payment-in-kind] now like we did it in the nineties. The money, that they will provide us in advance [] will anyway stay in Germany in order to pay local national construction companies and therefore will support the local employment market.[56]

A few months later, in February 2008, IMCOM-E's Payment-in-Kind Program Manager wrote that "[t]he need for advance [payment-in-kind] is becoming more acute based on evolving infrastructure requirements."[57] The email indicated that the German government had expressed a willingness to consider an advance but that IMCOM-E would need to make a written request.[58] Two weeks later, the chief of IMCOM-E Public Works Division's Real Estate branch sent a letter to the German government proposing that the two countries discuss an advance.[59] That letter pointed to "recent and anticipated transformation activities and the cost associated with those activities" as the reason for seeking an advance.[60]

In June 2008, IMCOM-E staff reached an agreement with the Germans in which the German government would provide €40 million (about $60 million) to IMCOM-E as advance payment-in-kind. An exchange of letters between IMCOM-E and the German government followed with IMCOM-E's Real Estate branch chief writing that "advance funds will prove helpful in construction projects to be performed in Wiesbaden and other locations in Germany."[61] Between the time that the agreement for an advance was reached and September 2012, IMCOM-E programmed more than $43.5 million of the advance for eight construction projects in Germany.

2. No Legal Review or Congressional Notification of Advance

There are questions as to whether IMCOM-E's expenditure of advanced payments is consistent with fiscal law. The agreement by IMCOM-E to accept the 2008 advance did not undergo a legal review at IMCOM-E at the time it was negotiated.[62] While it is unclear whether or not IMCOM-E's solicitation of an advance was known to DOD at the time, the Department has since said that it believes IMCOM-E's acceptance of the $60 million was legal.[63]

As discussed above, current law relating to residual value states:

"[b]efore the Secretary of Defense enters into negotiations with a host country regarding the acceptance by the United States of any payment-in-kind in connection with the release to the host country of improvements made by the United States at military installations in the host country, the Secretary shall

[56] Email from IMCOM-E Realty Specialist to IMCOM-E Chief, Real Estate et al. (October 19, 2007).
[57] Email from IMCOM-E PIK Program Manager to IMCOM-E Chief, Real Estate et al. (February 29, 2008).
[58] *Id.*
[59] Letter from IMCOM-E Chief, Real Estate to German Institute for Federal Real Estate (March 13, 2008).
[60] *Id.*
[61] *Id.*
[62] Committee staff meeting with IMCOM-E (September 7, 2012).
[63] Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (November 20, 2012).

submit to the appropriate congressional committees a written notice regarding the intended negotiations."[64]

The Committee was not notified that IMCOM-E intended to negotiate an advance payment-in-kind in connection with facility returns. In fact, the Committee only became aware of it in May 2012 when the DOD IG published its audit of residual value transactions in Europe. When asked why the Department did not notify Congress, DOD told the Committee that, in the Department's view, the statute did not require them to do so.[65]

As to how the debt resulting from the advance is to be repaid, while letters exchanged between IMCOM-E and the German government discuss the advance in the context of U.S. facility returns, there is apparently no contract or other written agreement stating that the U.S. would repay the debt through facility returns.[66] Nor does any agreement appear to exist describing how the debt is to be repaid should residual value negotiated for returns be less than the $60 million that the German government already advanced to IMCOM-E. Though both IMCOM-E and the German government understood at the time the advance was extended that the $60 million would be repaid with future facilities returns, both IMCOM-E and DOD have stated that the U.S. actually has no legal obligation to repay the advance.[67]

It is unclear whether residual value payments that the German government agrees to make in the next round of negotiations, expected to occur in 2013, will be sufficient to offset the full amount of the advance. According to data provided by IMCOM-E, as of October 2012, the U.S. and Germany had agreed to less than $9 million in residual value for facility returns that will be considered in settlement negotiations expected to occur in 2013.[68]

3. Advance Used for Questionable Projects

While IMCOM-E staff called the need for the advance payment "acute," a review of projects for which IMCOM-E has programmed advance payments-in-kind raises questions as to the accuracy of that assessment.[69] For example, more than $6 million of the advance payment-in-kind was programmed for a furniture storage warehouse in Grafenwoehr, Germany and $200,000 of the advance was earmarked for the construction of sunroom additions onto three senior officer houses in Stuttgart, Germany. Neither these projects, which are described in detail below, nor any other project against which advance payment-in-kind has been earmarked, was ever even submitted by IMCOM-E for FYDP consideration.[70]

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[64] 10 U.S.C. § 2687 Note (e).
[65] Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (November 20, 2012).
[66] Committee staff meeting with IMCOM-E (September 7, 2012).
[67] Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (November 20, 2012); Committee staff meeting with IMCOM-E (September 7, 2012).
[68] IMCOM-E, Spreadsheet: *Next Proposed RV Settlement Package* (October 2011).
[69] Email from IMCOM-E PIK Program Manager to IMCOM-E Chief, Real Estate et al. (February 29, 2008).
[70] Email from Department of Defense Office of Legislative Counsel to Committee staff (November 8, 2012).

### *a. Furniture Storage Warehouse in Grafenwoehr*

Among the projects that IMCOM-E proposed building with advance payment-in-kind is a furniture storage warehouse in Grafenwoehr, Germany. The new warehouse, which is intended to replace an existing leased facility, was estimated to cost $6.2 million.[71] The current warehouse stores furniture and appliances for soldiers stationed in Grafenwoehr and surrounding areas.[72]

The Department of Defense notified Congress about the furniture warehouse project in July 2011. The notification stated that DOD "certifies that if [the furniture warehouse project] were to be carried out [by DOD], Congress would need to appropriate funds [for the warehouse] in the next Future Years Defense Program."[73] Like most payment-in-kind projects, however, the warehouse had never even been submitted by IMCOM-E for consideration to be included on the Army's FYDP.[74] IMCOM-E staff said that the furniture warehouse would not have competed well for military construction funding.[75] Despite that, the Department of Defense has maintained that the warehouse would have been included on the FYDP had residual value funding not been available for the project.[76]

The notification was accompanied by a Military Construction Project Data Sheet (DD Form 1391) describing the warehouse project and including cost and schedule information.[77] The DD Form 1391 says that the existing leased warehouse is insufficient to meet long-term requirements and that the 80 year-old building is affected by persistent maintenance challenges such as water damage from a leaking roof and burst pipes.[78] (According to warehouse staff, the landlord has been responsive to minor repair requests.[79] However, IMCOM-E states that the landlord has not made necessary investments to bring the warehouse up to current standards. IMCOM-E has been unable to reach an agreement with the landlord to complete major repairs that are needed.[80] IMCOM-E has not advised the landlord that it plans to build a new facility rather than renew its lease.[81])

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[71] Letter from Deputy Secretary of Defense to Senator Carl Levin, Chairman, Committee on Armed Services (July 19, 2011).
[72] DD Form 1391, Project Number 78223, Furniture Warehouse/Office Space (June 11, 2010).
[73] Letter from Deputy Secretary of Defense to Senator Carl Levin (July 19, 2011).
[74] Email from Department of Defense Office of Legislative Counsel to Committee staff (November 8, 2012).
[75] Committee staff meeting with IMCOM-E staff (August 15, 2012).
[76] Letter from Under Secretary of Defense for Acquisition, Technology and Logistics to Senator Carl Levin (February 21, 2013).
[77] DD Form 1391, Project Number 78223, Furniture Warehouse/Office Space (June 11, 2010).
[78] *Id.*
[79] Committee staff tour of the furniture warehouse and related discussions (September 5, 2012).
[80] According to IMCOM-E:

> Discussions with the landlord regarding repairs and improvement to the warehouse resulted in no commitments by the landlord. The landlord has stated that if he were given a 5-year fixed contract then he would be willing to do some repairs, however, he would not specify what repairs he would do or the amount of money he would be willing to spend on improving the warehouse. The landlord was also unwilling to discuss new contract terms or revisions to the cost of the lease.

EUCOM responses to September 12, 2012 Committee staff questions (October 4, 2012).
[81] EUCOM responses to September 12, 2012 Committee staff questions (October 4, 2012).

The DD Form 1391 also states that "an economic analysis was prepared and utilized in evaluating this project" and that the construction of a new furniture warehouse "is the most cost effective method to satisfy the requirement."[82] The economic analysis was not included with the July 2011 notification. The Department provided it to the Committee in August 2012. The Committee's review of that analysis raises serious concerns about the accuracy of its conclusions.

The economic analysis discusses three alternatives to meet the furniture storage requirement: maintaining the status quo, constructing a new warehouse, or leasing a different facility. Each of the three was judged to be "a viable alternative."[83] According to the economic analysis, however, keeping the current facility was the "most expensive alternative and results in a higher cost to the government."[84] The analysis states that building a new facility, on the other hand, "is the best option" and "has the lowest [net present value]."[85]

As reflected in Figure 1, the economic analysis concluded that the net present value of new construction would be $200,000 less than leasing a different facility and $1.8 million less than the status quo.[86] Those conclusions, however, are based on the dubious assumption that the U.S. would recoup more than half of the cost to build the warehouse in future residual value negotiations.

**Figure 1**

**Furniture Warehouse Economic Analysis**

| Alternative | Net Present Value ($ in thousands) |
|---|---|
| Status Quo (current lease) | $5,567 |
| New Construction | $3,767 |
| New Leasing | $3,964 |

In calculating the net present value of the new warehouse, the analysis assumed that the U.S. government would be able to recover more than $3.2 million in residual value for the furniture storage warehouse in the year 2038. That assumption resulted in the net present value of the new warehouse option being reduced from more than $7 million, which would have made it the most expensive alternative, to less than $3.8 million, making it appear to be the least expensive alternative. Assuming that the U.S. government would receive more than 50 percent of its investment in the furniture warehouse in residual value from the German government is not a reasonable assumption and is inconsistent with past experience. As discussed above, the

[82] DD Form 1391, Project Number 78223, Furniture Warehouse/Office Space (June 11, 2010).
[83] IMCOM-Europe, Furniture Warehouse Office Space Economic Analysis (May 24, 2011).
[84] *Id.*
[85] *Id.* IMCOM-E has also said that that "[i]t would be cheaper to build a new facility than to repair the existing facility and bring up to current codes." EUCOM responses to September 12, 2012 Committee staff questions (October 4, 2012). However, that alternative was not included in the economic analysis and the basis for that conclusion is not clear.
[86] IMCOM-Europe, Furniture Warehouse Office Space Economic Analysis (May 24, 2011).

historical average residual value return on U.S. Army investments is about 10 percent.[87] Had the economic analysis assumed a 10 percent residual value return on the warehouse, the net present value of a new facility would have exceeded $6.4 million, making it nearly $2.5 million more than securing alternate leased space, and nearly $900,000 more than the status quo. The Department of Defense has acknowledged shortcomings in the economic analysis but has said that "other important operational factors contributed to the decision to construct a new facility."[88]

On November 26, 2012, Chairman Levin wrote to Secretary Panetta raising concerns about the furniture storage warehouse and urging the Department to reconsider its decision to construct the project.[89] DOD has since asked the Army to "put the [furniture warehouse] project on hold pending a reassessment of the size and alternatives for procuring the facility."[90]

### *b. Sunroom Additions to Senior Officer Housing in Stuttgart*

Perhaps none of the projects for which advance payment-in-kind has been earmarked raises more concerns than the construction of sunroom additions to three senior office houses in Stuttgart, Germany.

In 2010, IMCOM-E proposed using advance payment-in-kind to build the additions. The three houses to which the additions were to be attached were brand new, having been built by the German government as part of a separate 2007 agreement with the United States.[91] The three new homes are located amidst several older, similar homes for senior EUCOM and U.S. Africa Command (AFRICOM) officers.[92] The Department notified Congress of its plans to construct the sunroom additions in October 2010.[93] The Committee did not object to the project at the time of that notification.

The Department's notification letter stated that the project would increase the size of three family housing units in Stuttgart "to conform to DOD construction size standards."[94] A Military Construction Project Data Sheet (DD Form 1391) that accompanied the notification stated that the sunroom additions would be approximately 215 square feet per home.[95] Figure 2 shows the existing homes and the sunroom additions. The DD Form 1391 said that the three existing homes did "not meet [DOD's] benchmark size standards" and that if the sunrooms were not built "Senior Officer families will be assigned to units that do not meet Army and DOD

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[87] Email from IMCOM-E Realty Specialist to IMCOM-E Chief, Real Estate et al. (October 19, 2007).
[88] Letter from Under Secretary of Defense for Acquisition, Technology and Logistics to Senator Carl Levin (February 21, 2013).
[89] Letter from Senator Carl Levin to Secretary Leon E. Panetta (November 26, 2012).
[90] Letter from Under Secretary of Defense for Acquisition, Technology and Logistics to Senator Carl Levin (February 21, 2013).
[91] DD Form 1391, Project Number 77150, AFH Additions (January 13, 2010); Committee staff meeting with EUCOM (September 6, 2012).
[92] *Id.*
[93] Letter from Deputy Secretary of Defense to Congressman Norm Dicks, Chairman, Subcommittee on Defense, Committee on Appropriations (October 20, 2012).
[94] *Id.*
[95] DD Form 1391, Project Number 77150, AFH Additions (January 13, 2010).

construction size standards."[96] That statement, however, was inaccurate as the existing homes already met the Department's size standards.

**Figure 2**

**Stuttgart Senior Officer Housing Sunroom Additions**[97]

According to DOD's Unified Facilities Criteria (UFC) for family housing, the minimum size for new O-6 Colonel housing is 2,110 square feet.[98] Before the addition of sunrooms, the three homes were 2,490 square feet each, well above the minimum.[99] EUCOM staff said that, while the homes met the minimum, they were below the "benchmark" size standard.[100] While that is accurate, the benchmark size standard for 0-6 Colonel housing is only 2,520 square feet – 30 square feet more than the size of the original homes.[101] Moreover, EUCOM staff could not recall another occasion in which home additions were built for the sole purpose of meeting benchmark size requirements.[102] The decision to do so in this case was, according to IMCOM-E and EUCOM staff, instigated by the then Chief of Staff for AFRICOM.

According to IMCOM-E and EUCOM staff, in 2009, they became aware of email discussions between the then-AFRICOM Chief of Staff and IMCOM-E's Regional Director, regarding the AFRICOM Chief of Staff's concerns about the size of the three homes. The Department of Defense has been unable to locate those emails but, according to IMCOM-E and EUCOM staff, it was the AFRICOM Chief of Staff's complaints that led to the sunroom additions being built.[103]

The Committee spoke with the former AFRICOM Chief of Staff. The former Chief of Staff acknowledged that he complained to IMCOM-E at the time the three homes were under

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[96] *Id.*
[97] Photos were taken by Senate Armed Services Committee staff on September 6, 2012.
[98] U.S. Department of Defense, *Unified Facilities Criteria (UFC): Family Housing* (July 13, 2006) at 12.
[99] Committee staff meeting with EUCOM (September 6, 2012).
[100] Email from Department of Defense Office of Legislative Counsel to Committee staff (November 29, 2012); Committee staff meeting with EUCOM (September 6, 2012).
[101] U.S. Department of Defense, *Unified Facilities Criteria (UFC): Family Housing* (July 13, 2006) at 12.
[102] Committee staff meeting with EUCOM (September 6, 2012).
[103] Committee staff meeting with EUCOM (September 6, 2012); EUCOM responses to October 9, 2012 Committee staff questions (October 22, 2012).

construction that they were too small.[104] Not only that, but he also acknowledged sending IMCOM-E blueprints of family houses that had been built at another U.S. military base in Germany that included heated sunrooms.[105] The former AFRICOM Chief of Staff said, however, that he did not request that sunrooms be added on to the three Stuttgart homes and that such a request would have been outside of his authority.[106]

[104] Committee staff telephone conference with former Chief of Staff, U.S. Africa Command (November 2, 2012).
[105] *Id.*
[106] *Id.*

## II. Costs Associated with the U.S. Military Presence in the Republic of South Korea

On July 27, 1953, following three years of war that began on June 25, 1950, the senior delegates for the United Nations Command Delegation and the Delegation of the Korean People's Army and the Chinese People's Volunteers, signed an Armistice Agreement, suspending hostilities on the Korean peninsula. Three years later, in October 1953, the United States and the Republic of South Korea (ROK) signed a Mutual Defense Treaty which granted the U.S. the authority to station military forces in South Korea.[107] In 1966, the U.S. and South Korea signed a Status of Forces agreement (SOFA) that granted the United States the right to use certain facilities and areas in the country. The agreement provided that South Korea would furnish without cost to the United States "all facilities and areas and rights of way" in the country but that the U.S. would bear "all expenditures incident to the maintenance of the United States armed forces in the Republic of South Korea."[108]

In 1953, there were more than 325,000 U.S. troops in South Korea. In the fifteen years following the signing of the Armistice, that number fell to around 60,000 before declining to around 40,000 in the early 1970s.[109] By 2012, additional troop reductions had reduced that number to approximately 28,500, a level the U.S. has said it will maintain.[110]

The cost to taxpayers of supporting U.S. troop levels in South Korea is significant. The Department of Defense (DOD) estimates that non-personnel U.S. costs in South Korea were nearly $1.1 billion in Fiscal Year 2012 – and that figure does not include more than $2 billion in U.S. military personnel costs or hundreds of millions of dollars in South Korean contributions intended to offset U.S. costs.[111]

Over the next several years, the U.S. will incur additional costs to support the repositioning of forces on the Korean peninsula. The moves are being carried out pursuant to two agreements. One, called the Yongsan Relocation Plan (YRP), involves the move of U.S. forces from Yongsan Garrison in Seoul to Camp Humphreys, about 40 miles south of Seoul. The YRP was initiated by South Korea to allow the government to reclaim valuable real estate in downtown Seoul where the garrison is located. Implementing the YRP is expected to cost approximately $7 billion.[112] While, most YRP-related construction costs will be paid by South Korea, there are also substantial U.S. costs associated with the move. For example, the U.S. is responsible for providing most of the military family housing necessitated by the move.

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[107] Mutual Defense Treaty between the Republic of South Korea and the United States of America (signed October 1, 1953).

[108] Facilities and Area and the Status of United States Armed Forces in South Korea Agreement between the United States of America and the Republic of South Korea, Agreement between the United States of America and the Republic of Korea (July 9, 1966).

[109] Department of Defense, Military Personnel Historical Reports, *available at* http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/309hist.htm (January 16, 2013).

[110] Joint Statement of the 2012 United States – Republic of South Korea Foreign and Defense Ministers' Meeting (June 14, 2012).

[111] Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Operation and Maintenance Overview Fiscal Year 2013 Budget Estimates (February 2012).

[112] U.S. Department of Defense, *Military Realignments in South Korea Report to Congress* (July 18, 2012).

The second agreement, called the Land Partnership Plan (LPP), involves a repositioning and consolidation of forces mostly from areas north of Seoul to Camp Humphreys and Daegu, also south of Seoul. The U.S. is responsible for most costs associated with the LPP, which are estimated to be nearly $3.2 billion.[113] While the U.S. plans to pay a significant amount of these costs with host nation support payments from South Korea, doing so will result in less South Korean funding being available for other U.S. expenses.[114]

There will also be transition costs as force posture changes are being implemented. U.S. Army projections suggest transition costs of $100-$200 million for facility sustainment alone.[115] Transition costs for Base Operations Support, which includes such expenses as utility payments and equipment maintenance, have not been estimated.[116] Once the moves are complete, the U.S. will be responsible for costs associated with operating and maintaining facilities at Camp Humphreys and elsewhere. DOD has said that the force posture changes will "reduce[] the overall cost to maintain redundant U.S. facilities."[117] However, such a reduction – if it is achieved – will not be realized for several years.

The Committee reviewed U.S. costs associated with the military presence in South Korea and South Korean contributions made pursuant to bilateral Special Measures Agreements (SMA) to offset those costs. As described below, the review found that South Korea's contributions have not kept pace with the growth in U.S. costs. The Committee also reviewed projects for which U.S. Forces Korea (USFK) has used or is considering using South Korean contributions. Using South Korean contributions on economically unsound or non-mission-critical projects can leave other requirements unmet or require U.S. taxpayers to cover the costs. USFK's family housing requirement is an example of a large, as yet unfunded expense in South Korea. As discussed below, the Army's proposal to provide that housing, if approved, would create substantial long-term costs for U.S. taxpayers. Aggressive oversight of the use of South Korean contributions is critical to ensuring that their benefit to U.S. taxpayers is maximized. The Committee's review, however, has identified weaknesses in that oversight, particularly with respect to South Korea's in-kind SMA contributions. In-kind refers to non-cash contributions such as services or facilities that have a cash value.

### *A. South Korean Contributions to U.S. Costs*

For years after the Armistice Agreement was signed, South Korea remained a poor country. In 1960, the country's per capita Gross Domestic Product was comparable to that of Liberia and Sierra Leone.[118] Since that time, however, the South Korean economy has grown to become one of the world's fifteen largest.[119] Beginning in the 1990s, the United States and South Korea signed a series of "Special Measures Agreements" (SMA), under which South

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[113] U.S. Forces Korea, *U.S. Costs Associated with LPP* (August 9, 2012).
[114] U.S. Forces Korea responses to February 9, 2012 Committee staff questions (March 19, 2012).
[115] U.S. Army, *Summary of USFK Sustainment Requirement* (November 30, 2012).
[116] Email from Department of Defense Office of Legislative Counsel to Committee staff (December 14, 2012).
[117] U.S. Department of Defense, *Military Realignments in South Korea Report to Congress* (July 18, 2012) at 4.
[118] World Bank, DataBank: 1960 Per Capita GDP, *available at* http://databank.worldbank.org/ddp/home.do (January 16, 2013).
[119] World Bank, Gross Domestic Product Ranking Table (2011).

Korea began contributing toward U.S. costs.[120] In January 2009, the two countries signed the most recent SMA, establishing South Korea's contribution to U.S. costs for 2009-2013. That agreement set South Korea's contribution at ₩760 billion for 2009 (approximately $775 million). While the agreement increased South Korean contributions in subsequent years to keep up with inflation, South Korea's SMA contributions have not kept pace with U.S. costs.[121]

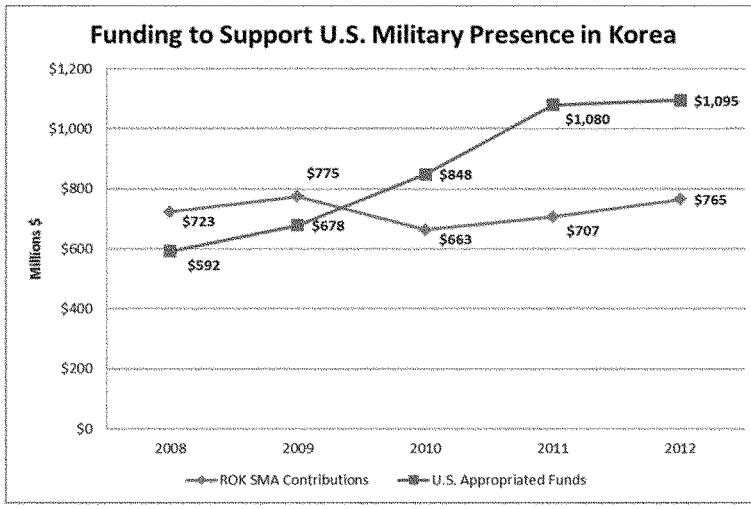
Figure 3 shows the estimated amount of South Korean SMA contributions and U.S. appropriations (excluding appropriations for U.S. military personnel costs) in calendar years 2008-2012. Figure 3 does not include South Korean costs to implement the Yongsan Relocation Program, as that move was initiated by South Korea and is being funded pursuant to the YRP agreement.

Every dollar in costs that can be met with a South Korean contribution is a dollar less in U.S. taxpayer funds that must be spent. It is therefore critical that the growth in South Korea's contributions keep pace with U.S. costs. As shown in Figure 3, since 2009, that has not been the case. South Korea's estimated SMA contributions exceeded U.S. appropriations by $131 million in 2008. By contrast, in 2012 U.S. spending in South Korea was expected to exceed South Korean SMA contributions by $330 million.

[120] U.S. Forces Korea, *2009-2013 Special Measures Agreement* (January 10, 2011).

[121] The agreement specifies that increases in South Korea's contributions will not exceed four percent in any single year. Agreement Between the United States of America and the Republic of South Korea Concerning Special Measures Relating to Article V of the Agreement Under Article IV of the Mutual Defense Treaty Between the Republic of South Korea and the United States of America Regarding Facilities and Areas and the Status of United States Armed Forces in the Republic of South Korea (hereinafter "2009 Special Measures Agreement") (January 15, 2009).

**Figure 3**[122]




### *B. Special Measures Agreement (SMA) Programs*

South Korea's SMA contributions fall into one of three categories: Labor Cost Sharing, Logistics Cost Sharing, and Republic of South Korea Funded Construction (ROKFC). Labor Cost Sharing contributions are provided in cash and are used to pay the salaries and benefits of USFK's South Korean employees. Logistics Cost Sharing contributions are "in-kind" and are used to pay for such things as equipment maintenance, certain leases, and sustainment of USFK facilities.[123] ROKFC contributions are used for the design and construction of facilities for use by USFK. Under the 2009 SMA, South Korea's contributions to the ROKFC program transitioned from cash to in-kind, with all contributions being in-kind by 2011.[124] According to

[122] South Korean SMA contribution amounts are best estimates based on Won to dollar conversions using annual budget rates published by the U.S. Department of Defense. Those rates differ from actual market exchange rates and do not reflect exchange rates used in instances where South Korean contributions were actually converted into U.S. dollars. The U.S. appropriations figures are based on FY 2008-2011expenditures, FY 2012 enacted appropriations, and FY 2013 requested appropriations. U.S. Forces Korea responses to April 18, 2012 letter from Senator Carl Levin (May 21, 2012); Office of the Under Secretary of Defense (Comptroller) Chief Financial Officer responses to Committee staff questions (October 25, 2012).

[123] Implementation Agreement for Special Measures Agreement (March 24, 2009).

[124] An exchange of notes related to in-kind contributions under the ROKFC program specified the in-kind portion of the ROKFC program at 30% in 2009, 60% in 2010 and 88% in each of 2011, 2012, and 2013. The remaining 12% for the latter three years are cash contributions associated with U.S. costs for design and construction oversight. ROKFC contributions cannot be used to "construct, expand, repair, or manage recreation facilities such as clubs, golf courses, theaters, and bowling alleys." Implementation Agreement for Special Measures Agreement (March 24, 2009); 2009 Special Measures Agreement (January 15, 2009); Exchange of Notes on In-kind Contribution of Republic of South Korea Funded Construction under the Agreement concerning Special Measures relating to Article V of SOFA (January 15, 2009).

USFK, the shift from cash to in-kind contributions was a result of the South Korean government's desire for more control over how ROKFC contributions were spent and which contractors were used.[125] As described in Section E below, however, that shift makes U.S. oversight more difficult.

The allocation of South Korea's SMA contributions among the three cost-sharing programs is largely done at the discretion of the USFK Commander.[126] It has been USFK's practice to allocate approximately 40 percent of SMA contributions to each of ROKFC and Labor Cost Sharing, and the remaining 20 percent to Logistics Cost Sharing.[127] South Korea's calendar year 2012 contribution will be approximately $765 million. Of that total USFK planned to allocate slightly more than 40 percent ($307 million) to labor cost sharing, about 16 percent ($119 million) to logistics cost sharing, and approximately 44 percent ($339 million) to ROKFC.[128]

As reflected in Figure 3, U.S. costs in South Korea have grown significantly over the past several years. In this context, it is important that South Korea's contributions to U.S. costs be directed at mission critical requirements. The Committee's review of projects either funded with South Korean contributions or being considered for such funding identified some questionable projects.

### *C. Questionable Use of South Korean Contributions*

In 2012 South Korea's SMA contributions were expected to amount to approximately $765 million. Maximizing their value to U.S. taxpayers depends on using those funds to offset U.S. costs by directing them to mission-critical requirements. Using South Korean funds to supplement U.S. funding by diverting them to nonessential or economically unsound projects can leave U.S. taxpayers on the hook for unmet requirements and create sustainment obligations that generate costs for years into the future.

The Committee reviewed Military Construction Project Data Sheets (DD Form 1391) and other documents associated with projects completed, underway and planned in South Korea. That review raised questions about whether, in some cases, South Korean contributions are being used to supplement, rather than offset, U.S. appropriations.

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[125] Committee staff telephone conference with U.S. Forces Korea (June 6, 2012).

[126] Email from Department of Defense Office of Legislative Counsel to Committee staff (July 31, 2012). Though the allocation of SMA funds is largely at the discretion of the U.S. Forces Korea Commander, the Implementation Arrangement for the Special Measures Agreement states that the contribution to U.S. Forces Korea's labor cost for its South Korean employees may not exceed 71 percent of U.S. Forces Korea's total labor cost for its South Korean employees. Implementation Arrangement for Special Measures Agreement (March 24, 2009).

[127] Committee staff meeting with U.S. Forces Korea (June 25, 2012).

[128] General James Thurman, Statement before Hearing of the U.S. House of Representatives Committee on Appropriations, Subcommittee on Military Construction, Veterans Affairs, and Related Agencies (March 29, 2012).

1. ROKFC Funds for LPP Projects at Camp Humphreys

As discussed above, force posture changes underway in South Korea will result in a large number of U.S. forces moving from Yongsan Garrison in Seoul, as well as areas north of Seoul, to Camp Humphreys. The build-up of Camp Humphreys is said to be the largest construction project in the history of the Department of Defense.[129] Of South Korea's SMA contributions for calendar year 2012 alone, USFK intended to spend more than $280 million for the design and construction of facilities at Camp Humphreys.[130] Aggressive oversight is critical to ensuring that U.S. and South Korean funds at Camp Humphreys are wisely spent. Oversight weaknesses, such as those identified by the Committee and described in Section E, risk funds being spent inefficiently or on unnecessary projects.

For example, USFK's plans for Camp Humphreys include constructing a $10.4 million museum for the U.S. Army's 2nd Infantry Division. The museum, which is to replace an existing museum at Camp Red Cloud, is targeted for construction in 2014. The DD Form 1391 for the project, which was approved by the Garrison Commander in February 2012, states that it is "required to provide adequate services to the increased population associated with restationing US Forces as part of the Land Partnership Program."[131] USFK has said that the museum was a "command requirement."[132] The Committee has traditionally viewed using appropriated funds to construct military museums with some skepticism and USFK's interest in using ROKFC contributions to build the museum raises the question whether those contributions might be better directed toward more mission critical requirements.[133]

The Committee also raised questions about USFK's consideration of ROKFC contributions to build a $5 million bread and pastry facility at Camp Humphreys. USFK had previously submitted the project for the Army to consider including as a priority for military construction appropriations in the Army's Future Years' Defense Program (FYDP).[134] According to the Army, however, the project "never made the cut" for inclusion in the FYDP.[135] Nevertheless, USFK continued to consider using ROKFC funds to build the facility. The

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[129] U.S. Army website, *available at* http://www.army.mil/article/84441/Deputy_Defense_Secretary_visits_Camp_Humphreys__thanks_troops/ (January 16, 2013).

[130] U.F. Forces Korea responses to February 9, 2012 Committee staff questions (March 19, 2012)

[131] DD Form 1391, Project Number SPT 050, ROKFC Museum (February 27, 2012).

[132] Committee staff meeting with U.S. Forces Korea (June 25, 2012).

[133] *See, e.g.*, discussion of National Museum of the United States Army contained in Conference Report to accompany H.R. 1540, National Defense Authorization Act for Fiscal Year 2012. The conference report states:

> [T]he conferees direct the Secretary of the Army to establish and maintain a clear and auditable separation of accounts between appropriations and private donations to ensure that the military construction appropriations are used only for the infrastructure and utilities up to the museum building exterior. The conferees agree that amounts appropriated for military construction should not be used to construct the museum.

*Id.*

[134] U.S. Forces Korea responses to October 9, 2012 Committee staff questions (October 22, 2012)

[135] Email from Army Legislative Liaison to Committee staff (October 15, 2012).

Committee asked for clarification on those plans and was informed in January 2013 that USFK was no longer considering the use of ROKFC contributions to build the facility.[136]

2. USFK's Use of South Korean Labor Cost Sharing Contributions at Yongsan

According to USFK, unit moves associated with the Yongsan Relocation Plan will be completed by 2016 and, at that point, the population at Yongsan will include only a relatively small number of personnel.[137] As forces move from Seoul to Camp Humphreys, land and facilities currently occupied at Yongsan will be returned to the South Korean government. During the transition, it is important that proposed investments in new construction and facility improvements be carefully scrutinized to ensure that we do not overinvest in non-enduring facilities at Yongsan. The Committee's review, however, raises questions about certain projects at Yongsan. One of those, a project to consolidate two garrison dining facilities, underscores the need for better accounting to ensure that South Korean contributions are actually used to offset U.S. costs rather than supplement U.S. spending.

In 2010, Yongsan Garrison decided to consolidate two existing dining facilities into one on the basis that maintaining the status quo would be "[c]ostly in terms of operations/maintenance for two separate and independent [dining facilities]."[138] Analysis supporting that decision purported to show that a one-time investment of $1.4 million to consolidate and renovate the remaining facility would reduce annual operating costs by $295,000 per year, resulting in a five year payback. The "savings" identified by the garrison's analysis, however, were not actually savings at all. Rather, they were a product of a decision to not include certain labor costs for the dining facility in the cost-benefit analysis because the garrison expected to pay those costs with South Korean funds.[139] The analysis, in effect, treated South Korea's SMA contribution as "free" money.

According to the garrison's cost-benefit analysis, annual direct hire labor costs for the two existing dining facilities amounted to $288,000 per year. Of that amount, $246,000 was being paid with Labor Cost Sharing funds, leaving $42,000 to be paid with U.S. appropriated funds. The analysis indicated that consolidating the two dining facilities would increase the annual cost of direct hire labor to $843,000, and that $594,000 of that amount would be paid with South Korean contributions under the SMA Labor Cost Sharing program. The remainder, or $249,000, was to be paid with appropriated funds.[140]

In concluding that consolidation was the less expensive option, however, the garrison excluded from the cost-benefit analysis all labor costs paid with South Korean Labor Cost Sharing contributions. Doing so distorted the comparison of alternatives and resulted in an underestimation of operating costs for the consolidation by $594,000. At the same time, South

[136] U.S. Forces Korea, *Korea Bread and Pastry Facility* (January 28, 2013).
[137] The total U.S. population (including dependents) at Yongsan Garrison in June 2012 was more than 6,000. By 2017, USFK estimated the total U.S. population would number in the hundreds. U.S. Forces Korea responses to July 6, 2012 Committee staff questions (July 17, 2012).
[138] U.S. Forces Korea, *Honor's Café Business Case* (July 17, 2012).
[139] *Id.*
[140] *Id.*

Korean Labor Cost Sharing contributions used for the project were not available for other purposes. Had South Korean contributions been included as a cost, the analysis would have shown that, rather than saving $295,000 a year in operating costs, the $1.4 million spent by the garrison to consolidate the two facilities actually increased operating costs by $53,000 per year.[141]

The Committee asked whether it was Yongsan Garrison's regular practice to subtract SMA labor cost sharing (LCS) funds from the "cost" portion of cost benefit analyses for proposed projects. The garrison responded that Korean contributions "*are* subtracted when we wish to specifically consider the actual U.S. government costs in cases where Korean labor costs are also involved."[142] What that practice fails to consider is that Korean contributions are best used to offset – rather than supplement – U.S. costs. That practice runs the risk of U.S. taxpayer funds being used to subsidize projects that do not make economic sense – as appears to have been the case with the dining facility consolidation.

### *D. Shift in DOD Policy Increases U.S. Costs in South Korea*

Recent changes in policy have led to a more than doubling in the number of Command Sponsored Families in South Korea. If that number remains at the 2012 level, the cost to support the increase will be significant. The Army's proposed plan to provide on-post family housing relies on U.S. taxpayers paying hundreds of millions of dollars in inflated rental costs for decades to come.

#### 1. USFK Proposes Full Tour Normalization

When a U.S. service member is assigned overseas, his or her orders specify whether the tour is to be Accompanied or Unaccompanied by family members. Service members who have orders for Accompanied tours and are sponsored by their new command are extended a range of benefits, including eligibility for on-post family housing and space for their dependent children at a Department of Defense school.

According to USFK, in 2007 there were around 1,700 Command Sponsored Families in South Korea.[143] In 2008, USFK sought a change in policy, referred to as Tour Normalization, to make tours for U.S. service members assigned to South Korea more like those for service members assigned to other overseas locations like Germany or Japan, and to increase the number of Command Sponsored Families in South Korea. Under Tour Normalization, forces assigned to South Korea could also be deployed off of the Korean peninsula while their families remained in the country.

In November of that year, the Chairman of the Joints Chiefs of Staff sent a memo to the Under Secretary of Defense for Personnel and Readiness endorsing USFK's request and

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[141] *Id.*
[142] U.S. Forces Korea, *USAG Yongsan Honor's Café and Labor Cost Sharing Funds* (February 4, 2013) (emphasis added).
[143] U.S. Forces Korea, *Military Command Sponsored Families from 2005-2012* (July 6, 2012).

recommending "an immediate increase of command sponsorship," with the caveat that growth in the number of command sponsored families should occur "as the needed growth in infrastructure, services, and base support is realized."[144] Weeks later, the Undersecretary of Defense for Personnel and Readiness approved the request but stated that "accompanied tour lengths are subject to adequacy of support infrastructure." [145]

The change in policy allowed USFK to implement the first phase of Tour Normalization and increase the number of Command Sponsored Families in South Korea.[146] In fact, between 2008 and 2010, the number of Command Sponsored Families in South Korea more than doubled.[147] At the time, USFK said that they intended to eventually expand the number of Command Sponsored families to "about 14,250 families" which would have represented half of the total number of troops assigned to South Korea.[148] In September 2010, the Secretary of Defense directed USFK and the military services to proceed with full Tour Normalization "as affordable."[149]

During the same time frame, questions were being raised about the cost of posture changes in South Korea. At a September 2010 Senate Armed Services Committee hearing, Chairman Carl Levin asked the USFK Commander about significant increases in cost estimates for the build-up at Camp Humphreys and about USFK plans for Tour Normalization. In questions for the record following the hearing, Senator McCain asked specifically about what could be done to reign in "incredibly high" costs associated with building family housing at Camp Humphreys.[150] A few months later, in February 2011, Senator McCain asked Secretary of Defense Gates about costs associated with Tour Normalization and whether, given North Korea's continued belligerence, the Department still intended to station U.S. military families in South Korea.[151]

At an April 2011 hearing, Chairman Levin called the timing of Tour Normalization in South Korea "questionable, given the belligerence of North Korea" and raised concern about the potentially significant costs associated with family housing.[152] In questions for the record following that hearing, Senator McCain similarly asked whether the U.S. "really need[s] to

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[144] Admiral M.G. Mullen, Memorandum re *South Korea Tour Length Change Request* (November 13, 2008).
[145] Under Secretary of Defense for Personnel and Readiness, Memorandum re *South Korea Tour Length* (December 1, 2008).
[146] U.S. Forces Korea, *The New South Korea, Strategic Digest, Strategic Alliance 2015* (October 2010); U.S. Forces Korea, Press Release: *DoD Memo lays Groundwork for Tour Normalization in South Korea* (December 11, 2008).
[147] U.S. Forces Korea, *Military Command Sponsored Families from 2005-2012* (July 6, 2012).
[148] U.S. Forces Korea, Press Release: *DoD Memo lays Groundwork for Tour Normalization in South Korea* (December 11, 2008).
[149] Secretary of Defense Robert M. Gates, Memorandum re *U.S. Forces Korea (USFK) Tour Normalization* (October 18, 2010).
[150] Senate Armed Services Committee hearing, *The Current Security Situation on the Korean Peninsula* (September 16, 2010).
[151] Senate Armed Services Committee Hearing to receive Testimony on DOD Authorization for Appropriations for the Fiscal Year 2012 and the Future Years Defense Program (February 17, 2011).
[152] Senate Armed Services Committee Hearing to receive Testimony on U.S. Pacific Command and U.S. Forces Korea in review of the Defense Authorization Request for Fiscal Year 2012 and the Future Years Defense Program (April 12, 2011).

station families in an area near an unstable and unpredictable adversary" and again raised questions about costs associated with providing family housing at Camp Humphreys.[153]

The following month, Senators Levin, McCain, and Webb issued a statement calling on DOD to place realignment of U.S. forces in South Korea "on hold pending further review, and reevaluate any proposal to increase the number of family members accompanying military personnel."[154]

Also in May 2011, the Government Accountability Office (GAO) issued a report raising questions about Tour Normalization, stating that the initiative "could cost DOD $5 billion by 2020 and $22 billion or more through 2050."[155] GAO criticized the lack of a business case analysis and said that DOD was "unable to demonstrate that tour normalization is the most cost-effective approach to meeting its strategic objectives."[156] In fact, GAO went so far as to recommend that DOD "limit investments at Camp Humphreys [where most of the infrastructure to support Tour Normalization was to be built] until the business case is completed."[157]

A month later, the Senate Armed Services Committee's issued its report to accompany the National Defense Authorization Act Fiscal Year 2012. The report expressed concerns about the cost of USFK's plan – particularly those likely at Camp Humphreys:

> In addition to these high, unbudgeted costs, the precarious security situation on the South Korean Peninsula created by the belligerent and unpredictable regime in North Korea raises serious concerns about the appropriateness of pursuing Tour Normalization at this time or in the foreseeable future.[158]

Less than a year later, in March 2012, USFK's Commander said that the Department of Defense was "not able to afford Tour Normalization at this time."[159] Notwithstanding that decision, however, USFK still faces the challenge of funding infrastructure to support the large increase in Command Sponsored Families that resulted from Phase I of Tour Normalization – including the cost of family housing.

2. Phase I of Tour Normalization Challenges USFK Infrastructure

When the USFK Commander announced the suspension of full Tour Normalization, he said that he was "content to remain at the currently authorized 4,645 Command Sponsored

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[153] *Id.*

[154] Press Release, *Senators Levin, McCain, Webb Call for Re-Examination of Military Basing Plans in East Asia* (May 11, 2011).

[155] Government Accountability Office, Comprehensive Cost Information and Analysis of Alternatives Needed to Assess Military Posture in Asia (May 2011) (hereinafter GAO Asia Report).

[156] GAO Asia Report at highlights page.

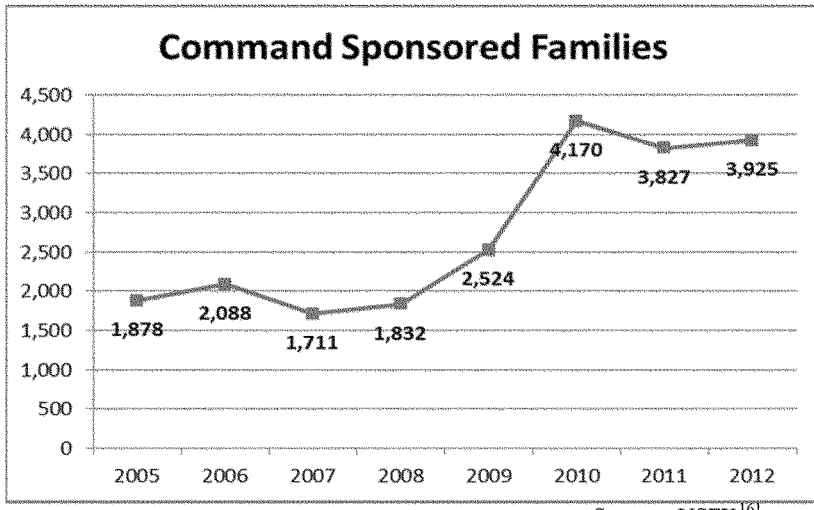
[157] *Id.*

[158] U.S. Senate, Report No. 112-026, National Defense Authorization Act for Fiscal Year 2012: *Military Realignments in Korea* (June 22, 2011).

[159] General James Thurman, Statement before Hearing of the U.S. House of Representatives Committee on Appropriations, Subcommittee on Military Construction, Veterans Affairs, and Related Agencies (March 29, 2012) at 14.

Families" that resulted from the first phase of Tour Normalization.[160] As shown in Figure 4, however, 4,645 families still represented a more than doubling of the number of Command Sponsored Families in South Korea since 2008, when DOD approved Tour Normalization.

**Figure 4**




Source: USFK[161]

The increase in the number of Command Sponsored Families that occurred after 2008 not only exhausted many existing resources but it also posed a challenge for USFK's planning for its future force posture. The growth occurred as USFK was planning to move a large number of its forces to Camp Humphreys as part of the Yongsan Relocation Program (YRP) and Land Partnership Plan (LPP). As discussed above, the YRP involves the move of U.S. forces from Seoul to Camp Humphreys while the LPP involves repositioning forces mostly from areas north of Seoul to Camp Humphreys and the City of Daegu.

According to USFK, when unit moves from the YRP and LPP are complete in 2016, there will be 3,308 Command Sponsored Families assigned to Camp Humphreys.[162] The number of families projected at Camp Humphreys alone is nearly double the number of Command Sponsored families in all of South Korea in 2008. There are substantial costs associated with the increase in families that occurred as a result of Phase I of the plan, including the cost of family housing.

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[160] *Id.*

[161] U.S. Forces Korea, *Military Command Sponsored Families from 2005-2012* (July 6, 2012); U.S. Forces Korea, Military Command Sponsored Families Approved as of 09-20-2012 *available at* (http://www.usfk.mil/usfk/Uploads/120/USFK_CS_NCS_Families_Report_20_Sep_12.pdf (January 25, 2013).

[162] U.S. Forces Korea, *USFK Relocation and Master Plan Execution at USAG Humphreys* (February 2012).

3. Family Housing Demand at Camp Humphreys

In the YRP agreement, South Korea agreed to pay to build housing at Camp Humphreys to replace DOD *owned* housing at Yongsan Garrison.[163] However, most family housing at Yongsan is not owned by the United States and South Korea is only obligated to fund the construction of 333 family housing units at Camp Humphreys.[164] The U.S. is responsible for the remainder. Other U.S. forces will also be moving to Camp Humphreys under the LPP, increasing the demand for family housing. The cost of any family housing necessitated by the LPP is a U.S. obligation.

The USFK Commander has stated that 40 percent of the 3,308 Command Sponsored Families slated for assignment to Camp Humphreys must live on-post to "fully meet operational requirements."[165] Meeting that 40 percent on-post requirement would mean that 1,324 family housing units would need to be available on-post at Camp Humphreys. USFK has proposed combining several sources to meet that total. As reflected in Figure 5, there are 142 existing family housing units at Humphreys. Additionally, Congress previously appropriated funds to build 210 additional family housing units, and the YRP obligates South Korea to build 333 units. However, the combination of those three still leaves a deficit of 639 family housing units, if the Commander's 40 percent requirement is to be met.

**Figure 5**

**Family Housing at Camp Humphreys**

| Source of On-Post Family Housing | Family Housing Units |
|---|---|
| Existing Family Housing at Camp Humphreys | 142 |
| Family Housing Built With FY 2009 Appropriations | 210 |
| Family Housing Paid by South Korea under YRP | 333 |
| **Total Family Housing from identified sources** | 685 |
| **Family Housing "Required" by USFK** | 1,324 |
| **Family Housing Deficit** | **639** |

[163] Agreement Between the United States of America and the Republic of South Korea on the relocation of United States Forces from the Seoul Metropolitan Area, Article 4 (October 26, 2004) (emphasis added). As of July 11, 2012, there were 853 command sponsored families living on-post at Yongsan. However, most of those families were living in on-post leased housing. U.S. Forces Korea responses to July 9, 2012 Committee staff questions (July 16, 2012).

[164] Joint Committee under the United States of America and the Republic of Korea Status of Forces Agreement, Memorandum re *Agreed Recommendation of Ad Hoc Subcommittee for the Yongsan Relocation Plan* (January 7, 2008).

[165] Email from Committee staff to Office of the Under Secretary of the Army et al. (September 10, 2012); U.S. Forces Korea, General James D. Thurman to the Secretary of the Army, Memorandum re *USFK Housing Requirement* (July 10, 2012).

The Army has proposed a private-public venture to build the family housing units necessary to make up for the deficit. However, the Army's plan, called the Humphreys Housing Opportunity Program (HHOP), has given rise to concerns about the costs, the legality, and the precedential impact of the proposed arrangement.

### *a. Humphreys Housing Opportunity Plan*

#### *i. DOD Announces Public-Private Venture*

On December 18, 2008, the Deputy Assistant Secretary of the Army (Installations and Environment) and the Managing Director of a private development group called Humphreys Family Communities LLC signed a Business Points Memorandum (BPM) outlining terms and conditions to be incorporated into a future agreement for Humphreys Family Communities LLC to construct, operate and maintain family housing at Camp Humphreys. The Army said at the time that the HHOP project would be the "largest single military housing project since World War II."[166]

The Army's agreement with the developer stipulated that the developer would build, operate and maintain housing that could be rented to military families using the rental portion of their overseas housing allowance (OHA).[167] In effect, the Army proposed to use housing allowances, rather than military construction funds, to pay for the construction of military housing. According to the Army, U.S. occupancy of HHOP units would not be guaranteed and the Army could withdraw from the agreement "at any time ... without incurring any penalty or further financial obligation."[168] The Army has said that HHOP would enable them "to produce affordable housing for individual rentals at *no capital construction investment by the Army*."[169] However, as discussed below, the Army has since proposed contributing, in effect, $125 million to the cost of HHOP. While the developer would bear the balance of HHOP construction costs, that investment would be recovered over time through inflated rental rates paid by U.S. taxpayers.

#### *ii. Housing Agreement Depends on Massive Rental Rate Increase*

The BPM agreement set rental rates for HHOP family housing units at a weighted average of $3,617 per unit and stipulated that each year the rate "will be increased by an amount

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[166] U.S. Army, Press Release: *Army announces $1.3 billion housing agreement in South Korea* (January 8, 2009).
[167] OHA is a monthly allowance paid to service members assigned to permanent duty stations overseas and who are authorized to live in private housing. OHA includes rent, utilities and a move-in housing allowance. U.S. Department of Defense, *Joint Federal Travel Regulation*, Appendix K (October 1, 2012).
[168] Those terms would be contained in a yet-to-be completed "Use Agreement" between the Army and Humphreys Family Housing, LLC. U.S. Forces Korea, Information Paper: *Duration of Humphreys Housing Opportunity Program Use Agreement* (February 17, 2012) (emphasis added).
[169] U.S. Army, Press Release: *Army announces $1.3 billion housing agreement in South Korea* (January 8, 2009).

equal to three percent (3%) of the then applicable Rental Rate."[170] (Notwithstanding that statement in the BPM, the Army has said that 3 percent increase is not automatic.) By contrast, at the time the agreement was signed, the rental component of the overseas housing allowance (OHA) for an accompanied U.S. service member serving at Camp Humphreys was approximately $1,000.[171]

By January 2010, turmoil in the financial markets had resulted in the proposed HHOP rental rate necessary for the developer to secure financing to balloon to $6,000 per month.[172]

As discussed above, under the YRP agreement, South Korea agreed to pay for the construction of 333 family housing units at Camp Humphreys. In order to reduce the capital cost of the HHOP project and thereby reduce the $6,000 rental rate, the Army decided to use 216 of those 333 family housing units – worth approximately $125 million – as an equity contribution to support the construction of HHOP.[173] Even with that $125 million factored in, however, the proposed HHOP rent only fell to $4,200, a rate that would apply to all HHOP units, even ones that the Army's equity contribution paid to build. Nevertheless, in September 2010 the Secretary of Defense directed the Army to execute the first phase of HHOP.[174]

In March 2011, the Secretary of the Army wrote to the Under Secretary of Defense for Personnel and Readiness, requesting approval of an OHA of $4,200 for HHOP units. The request cited "special circumstances" relating to the YRP as a basis for the increase.[175] In 2012, the Army reduced the amount of that request to $3,900.[176] As of March 2013, the Army was still seeking approval of a $3,900 OHA rate for HHOP units.[177] By contrast, in March 2013, the rental portion of the OHA for a military family assigned to Camp Humphreys was roughly $1,600 per month, less than half the current proposed HHOP rate.[178] The $3,900 rate already factors in the Army's $125 million equity contribution. As of March 2013, the Department of

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[170] That rental rate did not include the cost of utilities and, according to the BPM, tenants would pay their bills with their DOD provided utility allowance. USAG Humphreys Housing Opportunity Project (HHOP) Business Points Memorandum (BPM) (December 18, 2008) at 7.

[171] Defense Travel Management Office, December 2008 Overseas Housing Allowance, as reported in OHA Calculator *available at* http://www.defensetravel.dod.mil/site/ohaCalc.cfm (January 20, 2013).

[172] U.S. Army, *U.S. Army Garrison Humphreys Army Family Housing Support for Yongsan Relocation Program (YRP)* (August 23, 2012) at 7.

[173] *Id.*

[174] Secretary of Defense Robert M. Gates, Memorandum re *U.S. Forces Korea (USFK) Tour Normalization* (October 18, 2010).

[175] John M. McHugh to Under Secretary of Defense for Personnel and Readiness, Memorandum re *Request Establishment of an Overseas Allowance (OHA) Rate for United States Army Garrison (USAG) Humphreys based on Special Circumstances* (March 29, 2011).

[176] The Army was able to lower the amount of the requested increase by reducing apartment sizes by five percent and by reducing the number of five bedroom units. U.S. Army, *Humphreys Housing Opportunity Program* (August 17, 2012).

[177] Email from Deputy Assistant Secretary of Army (Installations, Energy and Environment) to Committee staff (March 20, 2013).

[178] Defense Travel Management Office, December 2008 Overseas Housing Allowance as reported in OHA Calculator *available at* http://www.defensetravel.dod.mil/site/ohaCalc.cfm (January 20, 2013).

Defense had yet to act on the Army's request to increase the OHA for HHOP, approval of which would impose substantial long-term costs.[179]

### *iii. Long Term HHOP Costs*

As discussed above, the USFK Commander has set the number of on-post family housing units needed at Camp Humphreys at 1,324. The Army intends for 850 of those 1,324 units to be HHOP units, with the remainder coming from a combination of existing units, South Korean funded units, and units built with already appropriated funds.

The Army has said that the cost of 850 HHOP units at $3,900 a month per unit "equals a marginal increase" in the cost to house military families in South Korea.[180] That claim is based on a comparison of the HHOP rate to the current OHA rental rate in Seoul, which was approximately $3,400 in December 2012.[181] However, HHOP is to be built at Camp Humphreys, 40 kilometers south of Seoul where, as of October 2012, the OHA rate was about $1,600.[182]

The potential long-term costs of the proposed HHOP rate are significant. As shown in Figure 6, over 20 years, the cost of 850 units at the HHOP rental rate would exceed the cost of the October 2012 Camp Humphreys OHA rental rate by more than $630 million. That $630 million would be a U.S. cost and does not even include the Army's $125 million equity contribution.

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[179] Email from Deputy Assistant Secretary of Army (Installations, Energy and Environment) to Committee staff (March 20, 2013).

[180] U.S. Army, Information Paper: *Humphreys Housing Opportunity Program* (August 17, 2012).

[181] Defense Travel Management Office, OHA Calculator *available at* http://www.defensetravel.dod.mil/site/ohaCalc.cfm (January 20, 2013).

[182] *Id.* The Army's use of Seoul rates as a benchmark for rents at Humphreys is not new. In its May 2008 solicitation for parties to submit Statements of Qualification for HHOP, the Army stated that "offerors should expect that OHA for U.S. Army Garrison-Humphreys will fall between the rates currently paid to Soldiers assigned to U.S. Army Garrison – Humphreys and the OHA paid to Soldiers assigned to installations in Seoul." U.S. Army Garrison – Humphreys Housing Opportunity Statement of Qualification (SOQ) for Apartment-Style Military Family Housing Under a Use Agreement at U.S. Army Garrison – Humphreys, Republic of South Korea (May 16, 2008) at 5.

**Figure 6**[183]

**Long-Term HHOP Costs**

| Year | 850 units @ OHA Rental Rate | 850 units at HHOP Rental Rate | Cost Difference OHA vs. HHOP |
|---|---|---|---|
| 2013 | $16,320,000 | $39,780,000 | $23,460,000 |
| 2014 | $16,809,600 | $40,973,400 | $24,163,800 |
| 2015 | $17,313,888 | $42,202,602 | $24,888,714 |
| 2016 | $17,833,305 | $43,468,680 | $25,635,375 |
| 2017 | $18,368,304 | $44,772,740 | $26,404,437 |
| 2018 | $18,919,353 | $46,115,923 | $27,196,570 |
| 2019 | $19,486,933 | $47,499,400 | $28,012,467 |
| 2020 | $20,071,541 | $48,924,382 | $28,852,841 |
| 2021 | $20,673,688 | $50,392,114 | $29,718,426 |
| 2022 | $21,293,898 | $51,903,877 | $30,609,979 |
| 2023 | $21,932,715 | $53,460,994 | $31,528,278 |
| 2024 | $22,590,697 | $55,064,823 | $32,474,127 |
| 2025 | $23,268,418 | $56,716,768 | $33,448,350 |
| 2026 | $23,966,470 | $58,418,271 | $34,451,801 |
| 2027 | $24,685,464 | $60,170,819 | $35,485,355 |
| 2028 | $25,426,028 | $61,975,944 | $36,549,916 |
| 2029 | $26,188,809 | $63,835,222 | $37,646,413 |
| 2030 | $26,974,473 | $65,750,279 | $38,775,805 |
| 2031 | $27,783,708 | $67,722,787 | $39,939,080 |
| 2032 | $28,617,219 | $69,754,471 | $41,137,252 |
| | | | |
| TOTALS | $438,524,512 | $1,068,903,497 | $630,378,986 |

### *iv. Legal Concerns with HHOP*

In addition to its long-term costs, HHOP also raises serious legal questions. The law requires the Secretary of Defense to "establish the basic allowance for housing [for a military service member] on the basis of housing costs in the overseas area in which the member is assigned."[184] The Joint Federal Travel Regulations (JFTR) state that maximum OHA rates are to be calculated based on "actual rent data derived from pay systems."[185] As discussed above, the proposed OHA rental rate sought for HHOP was based on the Army's negotiations with the developer to build housing rather than actual rent data in the Camp Humphreys area as proscribed by the JFTR.

[183] The analysis assumes an initial OHA rental rate of $1,600 and HHOP of $3,900 and escalates rates by 3 percent a year. If rents do not escalate at the 3 percent rate specified in the BPM, long-term costs of HHOP could be reduced. However, even if HHOP rents were to hold steady at $3,900 over twenty years, a seemingly unlikely prospect, and OHA rates conversely escalated by 3 percent annually, the long-term cost of HHOP would still amount to hundreds of millions of dollars.

[184] 37 U.S.C. § 403 (c)(1).

[185] Joint Federal Travel Regulations, Volume 1, Chapter 10, paragraph U10002: *Housing Allowance.*

In his request for the Department of Defense to approve a separate OHA rate for HHOP, the Secretary of the Army stated that the need for the increase was based on "special circumstances" relating to the relocation of personnel from Seoul to Camp Humphreys under the YRP.[186] The JFTR permits the Secretary of the Army and the Per Diem, Travel and Transportation Allowance Committee (PDTATAC) Chair to jointly authorize a different rate for a service member than would otherwise be required "due to special circumstances."[187] However, the regulation does not define "special circumstances."[188] While the Army's request invokes special circumstances to justify increasing the OHA for HHOP, the Army has not identified any previous case in which special circumstances were used in this manner.

In response to the Secretary of the Army's request for an OHA increase, the office of the Under Secretary of Defense for Personnel and Readiness requested that the Army provide a written justification that the "requested rate reflects local economic conditions."[189] The request also stated that there is "an essential link between OHA and the prevailing local rental markets."[190] The resulting Army analysis raises concerns.

The analysis stated that it is "legally unobjectionable" to base the OHA rate "at least in part" on the expected future rental cost of HHOP housing units.[191] Neither the law nor the JFTR directly address that issue but the Army's interpretation appears to be without precedent. Further, even if one accepted the argument that it is legally permissible to set future OHA rates based, in part, on the rental cost of HHOP units, the Army's own analysis also stated that:

> [S]uch a [OHA rate-setting] methodology will take into account the costs of adequate rental housing procured by Soldiers *off of USAG-Humphreys as well as the proposed HHOP related housing on-post.*[192]

It does not appear, however, that *actual* off-post rental rates were factored into the proposed OHA rate. Rather, the Army has said that "rental data associated with suitable family housing located in the vicinity of [Camp Humphreys] was *normalized* to account for 'unique' costs" associated with HHOP – such as meeting Army on-post building requirements.[193] The Committee is unaware of such a methodology ever being used to justify an OHA rate. Given their support for HHOP, it is perhaps not surprising that the Army's process for normalizing the off-post OHA rate led them to conclude that $3,900, the same rate deemed necessary for HHOP's developer to secure financing for the project, was justified.

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[186] John M. McHugh to Under Secretary of Defense for Personnel and Readiness, Memorandum re Request Establishment of an Overseas Housing Allowance (OHA) Rate for United States Army Garrison (USAG) Humphreys based on Special Circumstances (March 29, 2011).
[187] Joint Federal Travel Regulations, Volume 1 Chapter 10, paragraph U10020: *OHA-General.*
[188] *Id.* The regulation states, "The amount of OHA payable is determined as shown in APP K, unless a special determination jointly issued by the Secretary Concerned and the PDTATAC Chair authorizes a different rate due to special circumstances." *Id.*
[189] Office of the Under Secretary of Defense for Personnel and Readiness to Secretary of the Army, Memorandum re *Execution of Humphreys Housing Opportunity Program Phase I (HHOP-I)* (November 5, 2010).
[190] *Id.*
[191] U.S. Army, *Analysis for Special Circumstances* (2011).
[192] U.S. Army, *Analysis for Special Circumstances* (2011) (emphasis added).
[193] U.S. Army, Information Paper (January 16, 2013).

### *E. Oversight of Republic of South Korea SMA Contributions*

Aggressive oversight of USFK's use of South Korean contributions is important to ensuring that the benefit of South Korean contributions to U.S. taxpayers is maximized. Compared with military construction projects for which appropriated funds are sought, however, USFK appears to have a considerable amount of discretion in deciding how to use South Korean contributions. In fact, the Committee's review of the oversight process for military construction projects paid with South Korean contributions identified several areas for concern, including the review process for proposed construction projects and USFK's ability to account for South Korean in-kind contributions.

#### 1. Congressional Oversight of South Korean Construction-Related Contributions

Military construction projects built with appropriated funds go through a rigorous review and approval process. Before U.S. appropriations are authorized, such projects have typically been reviewed by the relevant Military Service and the Department of Defense and included in the Department's budget request to Congress. Prior to including a project in its annual National Defense Authorization Act, the Senate Armed Services Committee reviews detailed information about the project, including the associated Military Construction Project Data Sheet (DD Form 1391), and is typically briefed by the relevant service component on the need for the project. The same is not true of construction projects funded with South Korean contributions.

Most military construction projects underway or planned in South Korea are being funded under either the YRP agreement or with South Korean contributions provided under the SMA's Republic of South Korea Funded Construction Program (ROKFC). Unlike projects funded with U.S. appropriations, no Congressional authorization for YRP and ROKFC-funded projects is required. The amount spent on such projects is not easily determined and there are significant gaps in requirements relating to reporting how South Korean contributions are spent.

Under existing law, the Secretary of Defense is required to submit an annual report to Congress listing total *cash* contributions accepted from foreign governments in the preceding year, how much of the total amount was expended, and for what purpose – including cash used for military construction projects.[194] Cash contributions provided by South Korea under the SMA's Labor Cost Sharing and ROKFC programs have been included in those annual reports. For example, the FY 2011 report identified $358 million in South Korean cash contributions.[195]

The law does not, however, require that *in-kind* contributions be reported. So, for example, the USFK Commander has said that $339 million in 2012 South Korean contributions will be directed to the ROKFC program – an in-kind program.[196] Because those contributions

[194] The law permits the Secretary of Defense to accept cash contributions from foreign governments to compensate local national employees and pay for services, supplies and military construction projects. 10 U.S.C. § 2350j.
[195] U.S. Department of Defense, *Fiscal Year 2011 Burden Sharing Contribution Report* (December 28, 2011).
[196] General James Thurman, Statement before Hearing of the U.S. House of Representatives Committee on Appropriations, Subcommittee on Military Construction, Veterans Affairs, and Related Agencies (March 29, 2012).

are in-kind rather than cash, they will not be included in DOD's annual burden-sharing reports to Congress.[197] Nor are in-kind contributions tracked by the DOD Comptroller.[198]

The law also requires that the Department notify Congress of any military construction project funded with cash contributions from another country. Notifications must include a justification for the project as well as its estimated cost. While the law does not explicitly require Congressional approval as a precondition for the Department to proceed, projects may not be initiated for 21 days after such notification has been submitted, providing Congress an opportunity to review and potentially object to the proposed project.[199]

The law's notice and wait provisions relating to military construction projects do not extend to projects built with in-kind contributions.[200] So, none of the projects built with the $339 million in 2012 South Korean contributions will be notified to Congress. In fact, no Congressional notification was provided for well over $100 million in military construction projects that USFK has already completed with ROKFC in-kind contributions from previous years.[201] Notwithstanding the lack of notification, Congress will be responsible for appropriating funds to operate and maintain those facilities once they are completed.

2. OSD, PACOM and Military Service Oversight of South Korean Contributions

DOD Directive 4270.34 assigns responsibilities for the oversight of host nation funded construction programs in the U.S. Pacific Command's (PACOM) Area of Responsibility (AOR) to the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L), the military services, and PACOM.[202] The Committee's review identified weaknesses in how that directive is applied.

The DOD Directive assigns "overall direction and policy control" of host nation funded construction programs in PACOM's AOR to AT&L and charges the Under Secretary with the responsibility to review proposed host nation funded construction projects.[203] South Korean

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[197] *Id.* Logistics Cost Sharing contributions are also in-kind and, as such, are not included in the annual reports required by 10 U.S.C. § 2350j.

[198] Committee staff meeting with staff of the Under Office of Secretary of Defense (Comptroller) (March 16, 2012).

[199] The law's notice and wait requirements, however, do not apply to projects carried out in countries where a declaration of war has been issued or a national emergency has been declared by the President. In such cases, the Secretary of Defense is required to notify Congress and provide the project's estimated cost. 10 U.S.C. § 2350(j).

[200] *Id.*

[201] USFK does not have discretion to choose YRP projects as they were specified in agreements reached between the U.S. and South Korea in 1998. Memorandum of the Joint Committee under the United States of America and the Republic of South Korea Status of Forces Agreement (January 7, 2008); U.S. Forces Korea responses to October 9, 2012 Committee staff questions (October 22, 2012).

[202] The Directive defines "host nation funded program" as "[a]ny construction program that provides facilities in direct support of DOD personnel or programs, and that is funded partially or totally by a host nation in which DOD personnel are stationed." U.S. Department of Defense, Directive 4270.34 (January 12, 2005).

[203] South Korean contributions under the YRP program are not covered by the Directive. While the Directive does apply to the Republic of South Korea Funded Construction Program (ROKFC), AT&L has not issued written policies on the use of or accounting for ROKFC contributions. U.S. Department of Defense, Directive 4270.34; Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (June 12, 2012).

contributions under the YRP program are not covered by the Directive.[204] AT&L receives Military Construction Project Data Sheets (DD Form 1391), which include detailed project descriptions and cost and schedule information for ROKFC projects funded with cash contributions. However, for ROKFC in-kind contributions, AT&L normally reviews only a list of projects, a cost estimate and a brief (typically one sentence) description.[205] Typically AT&L does not even receive DD Form 1391s for these in-kind ROKFC projects.[206] Nor is AT&L appropriately staffed to conduct detailed reviews of military construction projects.[207]

The DOD Directive states that the PACOM Commander, through the Chairman of the Joint Chiefs of Staff, shall "exercise overall theater direction and control" and "monitor the planning, programming, design, and construction" of host nation funded construction programs.[208] PACOM staff advised the Committee that, in the case of the ROKFC and other host nation funded construction programs in South Korea, responsibilities assigned to PACOM in the Directive are largely delegated to USFK. While, like AT&L, PACOM reviews construction project lists provided by USFK, the Command's primary interest is ensuring that USFK plans are consistent with PACOM's Theater Posture Plan and maintain required operational capabilities.[209] PACOM does not typically review individual construction projects.[210]

As discussed above, before U.S. appropriations are authorized for a military construction project, that project has typically undergone a detailed review by the relevant Military Service before being designated as a priority and submitted to Congress as part of a DOD budget request. That is not the case for most military construction projects built with South Korean contributions as the Army, for example, exerts little influence in USFK decisions to direct SMA funding to particular projects. The Army does not approve South Korea funded construction projects planned by USFK. In fact, the Army does not even receive DD Form 1391s produced by USFK for South Korean-funded projects.[211]

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[204] Specific facilities to be built by South Korea under the YRP were included in a January 7, 2008 agreement between the United States and Republic of South Korea. Memorandum of the Joint Committee Under the United States of America and the Republic of South Korea Status of Forces Agreement (January 7, 2008); Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (June 12, 2012).

[205] The Committee reviewed project lists provided by USFK to AT&L for calendar years 2011 and 2012. Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (June 12, 2012).

[206] AT&L receives the DD Form 1391s for cash projects only because 10 U.S.C. § 2350j requires that Congress be notified of any military construction project funded with cash contributions from another country and the DD Form 1391 is included as part of that notification. Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment) (June 12, 2012).

[207] Committee staff meeting with Office of the Deputy Under Secretary of Defense (Installations and Environment). (June 12, 2012).

[208] Department of Defense, Directive 4270.34.

[209] Committee staff telephone conferences with U.S. Pacific Command staff (July 20, 2012 & July 26, 2012).

[210] *Id.*

[211] Email from Department of Defense Office of Legislative Counsel to Committee staff (December 17, 2012); Committee staff meeting with U.S. Army (November 19, 2012).

3. USFK Accounting for Special Measure Agreement ROKFC In-Kind Contributions

Construction projects funded through the ROKFC in-kind program are selected by the USFK Commander, after consultation with the Republic of South Korea, and USFK provides a list of approved projects and cost estimates to the South Korean Ministry of National Defense (MND).[212]

The U.S. Army Corps of Engineers (USACE) provides South Korea with a list of acceptable contractors, but the South Korean MND chooses which contractor will build each project and manages project construction.[213] To track actual construction costs for in-kind projects, USFK relies on contract documents provided by the South Korean MND.[214] In 2012, MND also began providing USFK with a quarterly report detailing contract obligations and expenditures for each ROKFC in-kind project.

The Committee reviewed U.S. cost estimates for in-kind projects completed to date and USFK supplied the Committee with copies of construction contract documents for ROKFC in-kind projects that the MND had provided them. However, the Committee was unable to read those documents because they are written entirely in South Korean. It is also unclear whether the documents are complete contracts as the overwhelming majority of them are only a few pages long despite being for millions of dollars' worth of construction. USFK staff reports that they do not translate the documents but only extract cost figures from them to track construction costs.[215]

USFK has allocated more than $600 million to the ROKFC in-kind program since 2011 and will likely allocate more than $300 million in 2013, the final year of the current SMA. It is critical that USFK closely monitor spending on ROKFC in-kind projects to ensure that the U.S. receives the most value for South Korea's host nation support commitments. It is unclear how that can be accomplished if USFK doesn't read the construction contracts. USFK has said, however, that they believe that the U.S. is getting good value from the ROKFC in-kind program and USFK staff has said they are uncertain as to whether translating and reviewing the contract documents would be worthwhile.[216]

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[212] U.S. Forces Korea also provides the South Korean Ministry of National Defense with the DD 1391 forms for each project. Implementation Arrangement for Special Measures Agreement ((March 24, 2009); Implementing Agreement for Republic of South Korea Funded Construction In-Kind Projects under the CY 2009-2013 Implementation Arrangement for Special Measures Agreement (January 27, 2012).

[213] Implementing Agreement for Republic of South Korea Funded Construction In-Kind Projects under the CY2009-2013 Implementation Arrangement for Special Measures Agreement. (January 27, 2012).

[214] *Id.*

[215] Committee staff meeting with U.S. Forces Korea staff (June 25, 2012).

[216] U.S. Forces Korea has said that, as of April 2012, costs for in-kind projects were 9 percent lower than initial estimates. U.S. Forces Korea, *Analysis of Final ROKFC In-Kind Costs* (July 16, 2012); Committee staff meeting with U.S. Forces Korea staff (June 25, 2012).

## III. Costs Associated with the U.S. Military Presence in Japan

The United States has maintained a military presence on Japan since the Japanese surrender in 1945 ended World War II. In September 1951, the United States and other allies signed the Treaty of Peace with Japan under which Japan regained full sovereignty.[217] And on January 19, 1960, the U.S. and the Government of Japan (GOJ) executed the Treaty of Mutual Cooperation granting the U.S. military access to "facilities and areas" in the country.[218] That same day, the U.S. and Japan executed a Status of Forces Agreement (SOFA).[219] Article XXIV of the SOFA states that the U.S. will bear all expenditures incident to maintenance of the U.S. presence in Japan but that Japan will provide the use of land and facilities, such as airfields and ports, "without cost to the United States."[220]

The SOFA also created the U.S.-Japan Security Consultative Committee (SCC) which consists of the U.S. Secretaries of State and Defense and the Japanese Ministers of Foreign Affairs and Defense.[221] The SCC meets periodically to set "bilateral policy regarding the security relationship between the United States and Japan."[222] A number of agreements and force realignment actions have also been announced through the SCC.[223]

As of 2012, U.S. military strength in Japan was approximately 50,000 troops, about half of whom were stationed on Okinawa.[224] According to the Department of Defense, the U.S. cost to maintain forces in Japan was expected to be more than $4.8 billion in Fiscal Year 2012.[225] That amount is on top of approximately $2 billion contributed by the Government of Japan.[226]

For FY 2012, U.S. costs included approximately $2.75 billion in personnel costs and more than $2 billion in non-personnel costs.[227] As shown in Figure 7, U.S. non-personnel costs

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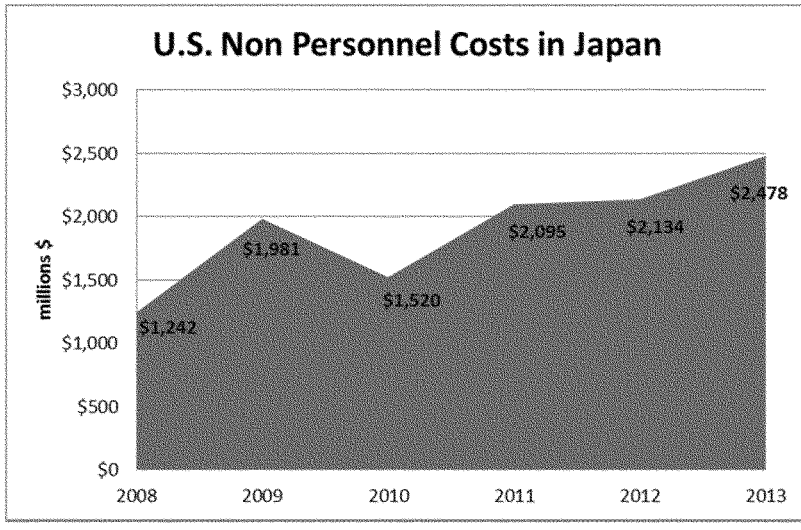
[217] U.S. State Department, Japan Country Page *available at* http://www.state.gov/r/pa/ei/bgn/4142.htm (September 27, 2012).
[218] Treaty of Mutual Cooperation and Security between Japan and the United States of America (January 19, 1960).
[219] Agreement Under Article VI of the Treaty of Mutual Cooperation and Security Between the United States of America and Japan, Regarding Facilities and Areas and the Status of U.S. Armed Forces in Japan (January 19, 1960) (hereinafter "US-Japan SOFA").
[220] US-Japan SOFA, Article XXIV.
[221] US-Japan SOFA, Article XXV; Joint Statement of the Security Consultative Committee (April 27, 2012); U.S. State Department, Japan Country Page *available at* http://www.state.gov/r/pa/ei/bgn/4142.htm (September 27, 2012); GAO, *Overseas Presence: Issues Involved in Reducing the Impact of the U.S. Military Presence on Okinawa* (March 1998) at 15.
[222] GAO, *Overseas Presence: Issues Involved in Reducing the Impact of the U.S. Military Presence on Okinawa* (March 1998) at 15.
[223] *See, e.g.*, Security Consultative Committee Document, *US-Japan Alliance: Transformation and Realignment for the Future* (October 29, 2005).
[224] Congressional Research Service, *The U.S. Military Presence in Okinawa and the Futenma Base Controversy* (August 3, 2012) at 8. There are also approximately 5,000 DOD civilians and 43,000 DOD dependents in Japan. USFJ Website *available at* http://www.usfj.mil/ (September 27, 2012).
[225] Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Operation and Maintenance Overview: Fiscal Year 2013 Budget Estimates* (February 2012) at 201.
[226] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012).
[227] Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Operation and Maintenance Overview: Fiscal Year 2013 Budget Estimates* (February 2012) at 201.

have grown significantly over the past several years and, in FY 2013, are expected to be nearly double what they were in 2008.

**Figure 7** [228]




There are a number of force posture changes planned or underway that will affect future U.S. costs in Japan and the Pacific. As part of an ongoing series of talks under the U.S. - Japan Defense Policy Review Initiative (DPRI), U.S. Forces Japan (USFJ) and U.S. Pacific Command (PACOM) have proposed a number of significant posture changes, including actions to reduce the U.S. military presence on Okinawa.[229] Congress has declined to fund projects necessary to implement many of these posture changes pending the completion of various requirements, including providing Congress with detailed cost estimates.

The Committee conducted a review of Japan's contributions to offset U.S. costs. As described in Part A below, that review raises concern about the downward trend in the amount that Japan contributes. It also identified risks associated with the shift in Japanese support from funding U.S. utilities and labor costs to funding the Facility Improvement Program (FIP), a voluntary program over which U.S. control is limited. The Committee also reviewed costs associated with proposed force posture changes affecting Japan. As described in Part B, significant potential costs have yet to be quantified. Uncertainty about those costs cautions against lifting Congressional restrictions on DOD spending to implement some of the posture changes until detailed estimates are completed and provided to Congress.

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[228] Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2008-2013 Japan Cost Data, attached to email from Comptroller to Committee staff (December 17, 2012).
[229] U.S. Marine Corps Installation Pacific, Presentation: *Defense Policy Review Initiative (DPRI)* (June 28-29, 2012) at 3.

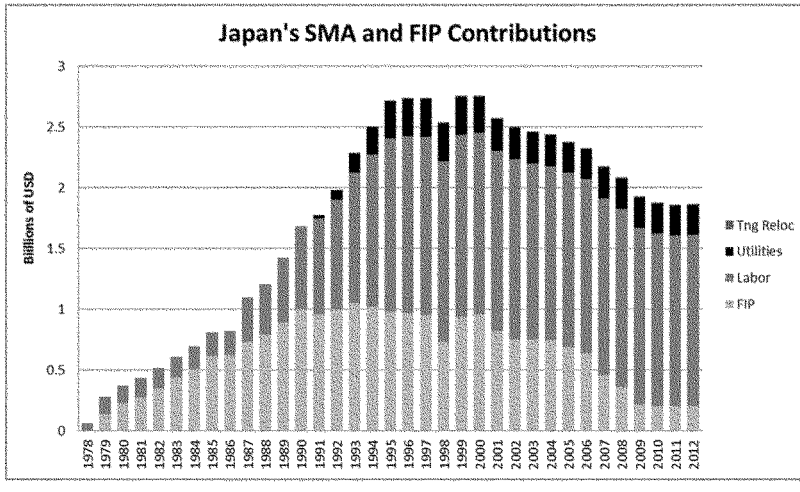
### *A. Japan's Host Nation Support: Special Measures Agreement and the Facility Improvement Program*

Since 1978 Japan has contributed funding to offset U.S. costs associated with the U.S. military presence in Japan through a series of bilateral agreements and arrangements. Currently, GOJ provides monetary support mainly through two funding streams, the Facility Improvement Program (FIP) and Special Measures Agreements (SMA).

Since 1987, the U.S. and Japan have entered into a series of formal agreements, called Special Measures Agreements (SMA), which have set Japan's contributions to U.S. costs for labor, utilities and training relocation.[230] The U.S. and Japan negotiate a new SMA every three to five years. FIP, on the other hand, is a voluntary program under which Japan provides funding for U.S. infrastructure and facilities in Japan. While Japan has stated that it will contribute to the program through 2015, FIP is not part of the SMA and remains a voluntary program.[231]

As shown in Figure 8, Japan's contributions to U.S. costs grew steadily through the early 1990s, peaking around the year 2000, before declining significantly over the last decade.[232]

**Figure 8**[233]




[230] Japanese support for U.S. utility costs and training relocation began in 1991 and 1996, respectively. U.S. Forces Japan has undertaken a number of realignment initiatives, at the behest of GOJ, to alleviate the burden on local communities. GOJ contributes to the costs of these initiatives. Those contributions are not included in this report's discussion of host nation support as realignment was initiated at the behest of Japan. U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 4-6.

[231] Security Consultative Committee Document, Host Nation Support (June 21, 2011).

[232] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 7; U.S. Forces Japan, *HNS % of JDA* (undated).

[233] Chart from U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012).

USFJ has stated that the U.S. has sought to stop the downward slide of Japanese contributions, though the Committee's review raises questions about GOJ support levels in the long-term.[234]

1. 2011-2015 Special Measures Agreement

In January 2011, the U.S. and Japan signed a Special Measures Agreement covering Japanese Fiscal Years 2011-2015. Under the SMA, GOJ provides labor and utility payment support for USFJ.[235] In June 2011, U.S. Secretary of State Hillary Clinton, Secretary of Defense Robert Gates and the Japanese Ministers of Foreign Affairs and Defense released a statement calling the SMA "a pillar of the Alliance" and affirming that Japan's host nation support would remain at the 2010 level over the five years covered by the SMA.[236] While the statement acknowledged a "phased reduction" in Japan's contributions to U.S. labor and utilities costs during the period covered by the SMA, the statement indicated that an amount corresponding to that reduction would be added to the Facilities Improvement Program (FIP) to keep the level of Japanese support constant.[237] The Committee's review raises concern about that shift.

***a. Japan's Support for U.S. Labor Costs***

Under prior SMAs, GOJ paid wages for 23,055 Japanese nationals employed on U.S. bases. The 2011 SMA, however, reduces that number from 23,055 in 2011, to 22,625 in 2015.[238] As a result of that reduction, GOJ will be providing less labor funding by 2015.[239] While the decrease is expected to be relatively small, as shown in Figure 9, it continues a trend of declines in SMA labor funding since 1996.[240]

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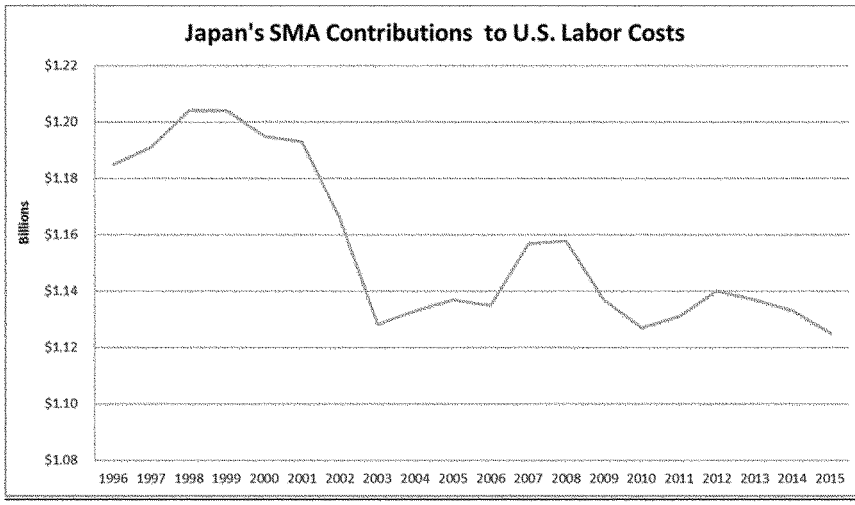
[234] Committee staff meetings with U.S. Forces Japan (June 27-28, 2012).
[235] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 8-12. The SMA also includes support for U.S. costs to construct training facilities when GOJ requests that the U.S. relocate to another site. Training relocation costs are variable based on GOJ's requests. *Id.* at 19.
[236] Security Consultative Committee Document, *Host Nation Support* (June 21, 2011).
[237] *Id.*; *see also* U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 7.
[238] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 7.
[239] U.S. Forces Japan, *SMA LCS Funding Loss* (Based on JFY2010 data) (undated); GOJ Budget spreadsheet attached to email from Department of Defense Office of Legislative Counsel to Committee staff (October 24, 2012).
[240] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 11.

**Figure 9**[241]




### *b. Japan's Support for U.S. Utility Costs*

SMAs prior to the 2011 agreement set an annual cap on Japanese contributions to U.S. utility costs. For example, the 2008-2010 SMA set Japan's maximum annual contribution for 2009 and 2010 at ¥24.9 billion (approximately $326.5 million in 2012).[242] The 2011 SMA maintains the maximum Japanese contribution at ¥24.9 billion but also caps the percentage of U.S. utility costs that Japan will pay and reduces that percentage cap over time.[243] GOJ's annual contribution to utility costs will likely remain at ¥24.9 billion through 2015. However, as shown in Figure 10, U.S. costs are expected to rise.[244] While the U.S paid approximately $71 million – or 20 percent of its utility costs in 2009, by 2015 the U.S. expects to pay nearly $217 million, or about 40 percent.[245]

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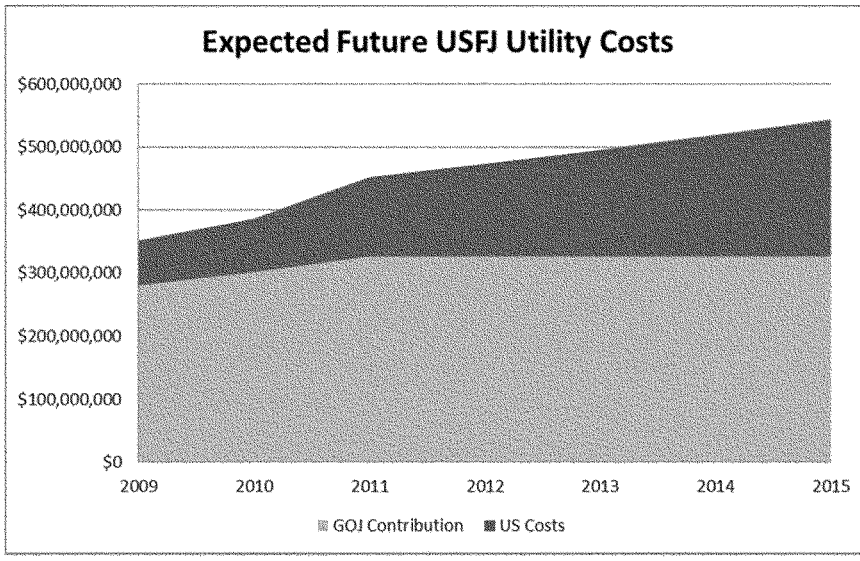
[241] Data drawn from spreadsheet provided in email from U.S. Department of Defense to Committee staff (October 24, 2012).
[242] Special Measures Agreement (SMA) on Host Nation Support (December 12, 2007).
[243] Japan's contribution is set at 76 percent for 2011, declining to 72 percent by 2015. U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 7.
[244] Department of Defense responses to July 12, 2012 Committee staff questions, attached to email from Department of Defense Office of Legislative Counsel to Committee staff (July 30, 2012).
[245] *Id.*

**Figure 10**[246]




USFJ has said that GOJ sought to eliminate the utility cost sharing program in 2011 and that it is "highly probable" GOJ will target utility cost sharing for reduction or elimination when the next SMA is negotiated.[247]

2. Facility Improvement Program (FIP)

FIP was initiated in 1978 by GOJ to provide housing for U.S. military personnel.[248] Over time, the program has evolved to also fund projects to ameliorate the burden on local Japanese communities affected by the U.S. military presence.[249] While Japanese contributions to FIP are

[246] Chart created from data contained in U.S. Forces Japan responses to Committee staff questions (July 27, 2012). The data assumes a future Yen-dollar exchange rate equal to the 2011 rate. *Id.* According to U.S. Forces Japan, utility cost projections are uncertain as future costs are influenced by unpredictable factors such as mission requirements, personnel assignment fluctuation, annual weather patterns, utility unit prices, and foreign currency exchange fluctuations. *Id.*

[247] U.S. Forces Japan, Presentation: *Special Measures Agreement Overview* (June 27, 2012) at 14.

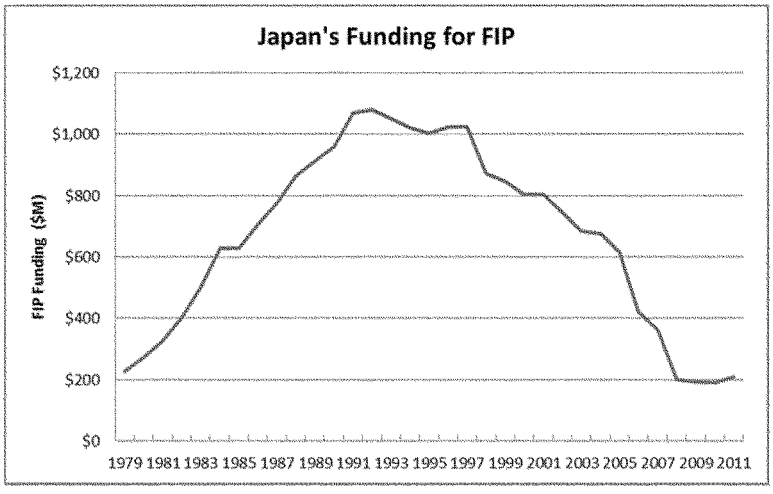
[248] U.S. Forces Japan, Presentation: *JFIP* (undated); GAO, Statement for the Record by the International Division, submitted to the Subcommittee on Defense Committee on Appropriations: Defense Burdensharing by Japan (April 21, 1982) at 5.

[249] In 2000, GOJ released criteria used to evaluate proposed FIP projects. The criteria identified three categories of projects (1) Projects that constitute the foundation of US Forces activities, such as family housing or barracks; (2) Projects that contribute to a harmonious relationship between US Forces and local communities, such as environment-related facilities and safety measures; and (3) Welfare facilities, such as recreational facilities and entertainment-oriented facilities. Japan has said that proposed projects in the third category will be "especially

considered host nation support, FIP is not included in the SMA. And, unlike the SMA, FIP is a voluntary program.[250] While FIP is discussed in the context of Japan's support for the U.S. presence, FIP funds Japanese as well as U.S. proposed projects.

The amount of FIP funding has declined significantly in the last twenty years. At its peak in 1992, Japan's annual FIP contribution amounted to more than $1 billion.[251] As reflected in Figure 11, that amount has fallen to approximately $200 million for 2012.[252]

**Figure 11**[253]




Shortly after the 2011 SMA was agreed to, the U.S. and Japan agreed to FIP funding levels for 2011-2015. The FIP arrangement established a "floor" or minimum contribution amount of ¥20.6 billion (approximately $200 million) per year. The two countries also agreed that any decreases in GOJ funding for SMA programs occurring from 2011-2015 would be added to that FIP floor.[254]

Restrictions on the availability and use of FIP funding, however, raise questions as to whether reducing SMA funding for labor and utility costs in exchange for corresponding increases in FIP is a good deal for U.S. taxpayers. Each dollar that Japan contributes under the

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scrutinized." *Press Release after the Joint Committee on Adoption Criteria for the Facility Improvement Program* (undated).

[250] Department of Defense, *References to Host Nation Burden Sharing in the 2011 USAPACOM Theater Posture Plan* (undated). "This program is voluntary and is not a treaty obligation." *Id.*

[251] U.S. Forces Japan, Presentation: *JFIP* (undated).

[252] *Id.*

[253] U.S. Department of Defense, *JFY79-2011 JFIP Summary (SASC)* (undated).

[254] Security Consultative Committee Document, *Host Nation Support* (June 21, 2012).

SMA to U.S. utility and labor costs directly offsets a dollar in U.S. taxpayer funds that would have to be spent. The same cannot be said for the FIP program.

### *a. Twenty Percent of FIP is Reserved for GOJ-Initiated Projects*

Each year the U.S. produces an Integrated FIP Priority List which ranks USFJ's priorities for FIP funding.[255] However, FIP does not only fund U.S. priorities. Japan also directs FIP funding to its own priorities. In fact, according to USFJ, approximately 20 percent of FIP funding is reserved for GOJ-initiated projects.[256] Such projects are often requested by local Japanese communities. While USFJ can object to a GOJ-initiated project being funded with FIP, according to USFJ, those unspent funds may not then be spent on a U.S. priority.[257] In addition, as discussed below, the U.S. does not ultimately determine how the remaining 80 percent of FIP funding is spent either.

### *b. Top U.S. Priorities are Often Not Funded*

U.S. Forces Japan produces an Integrated Priority List of projects for which it is seeking FIP funding.[258] While the final list of projects that will secure funding is negotiated between the two countries, GOJ ultimately decides whether or not a U.S. priority will be funded. In addition to GOJ approval for any project, local community approval is also necessary.[259] The Committee reviewed the FIP Priority Lists for Japanese Fiscal Years 2011-2013.[260] That review found that USFJ's top FIP priorities are often not funded and sometimes remain on the list for years.

Of USFJ's top 50 priorities on the 2011 Integrated Priority List, for example, 22 projects were not funded.[261] Of the top 100 USFJ priorities, 53 projects were not funded.[262] Among those unfunded U.S. priorities was a fire station at Camp Hansen, which was priority number eight on the U.S. list, estimated by USFJ to cost approximately $4 million.[263] Two years later,

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[255] Committee staff meeting with U.S. Forces Japan (June 27, 2012). The military services propose projects to be considered for FIP funding. U.S. Forces Japan reviews the proposals and integrate service priorities into a single Integrated Priorities list. Committee Staff meeting with U.S. Forces Japan (June 27, 2012). Once finalized by U.S. Forces Japan, the list is reviewed by U.S. Pacific Command and the Office of the Under Secretary of Defense (Acquisition, Technology & Logistics (AT&L)). DOD Directive, *Host Nation-Funded Construction Programs in the U.S. Pacific Command Area of Responsibility* (January 12, 2005); U.S. Forces Japan, Instruction: Host Nation Funded Construction (November 27, 2002).

[256] Committee staff meeting with U.S. Forces Japan (June 27, 2012).

[257] *Id.*

[258] Beginning in fiscal year 2012, U.S. Forces Japan instituted a new format for the Priority List that segregates the list into four categories – (1) Projects for which approval to negotiate is requested, (2) Projects committed to by bi-lateral agreement, (3) Projects under survey and design, and (4) New projects to be negotiated for future years funding when available. *See, e.g.*, U.S. Forces Japan, *JFY13 Japan Facilities Improvement Program – Integrated Priority List* (undated).

[259] U.S. Forces Japan, Presentation: *JFIP* (undated).

[260] U.S. Forces Japan, *JFY2011 JFIP Integrated Priority List* (April 29, 2010); U.S. Forces Japan, *JFY13 Japan Facilities Improvement Program – Integrated Priority List* (undated); U.S. Forces Japan, *JFY12 Japan Facilities Improvement Program – Integrated Priority List* (undated).

[261] U.S. Forces Japan, *JFY2011 JFIP Integrated Priority List* (April 29, 2010).

[262] *Id.*

[263] *Id.*

the fire station is still on the FIP list as a "new projects to be negotiated of future years funding when available."[264]

By contrast, among the GOJ-initiated projects on the 2011 list was a $2.9 million "Safety Countermeasure (Net)" at Camp Zama.[265] The safety countermeasure was actually a net to be constructed around the golf course at Camp Zama.[266] According to USFJ:

> In 2010, due to continued complaints from Japanese citizens of golf balls damaging cars and houses adjacent to the golf courses at Camp Zama, the Government of Japan (GOJ) requested the U.S. Government to accept a FIP project to install golf nets at specific locations w[h]ere the golf balls were causing damage.[267]

The golf netting is expected to be completed by March 2013.[268] As of January 2013, the fire house was still not funded.

In 2006, GOJ initiated a Seaweed Bed and Tidal Flat restoration project which is estimated to cost $57.7 million.[269] The project is a result of a previously funded GOJ-initiated FIP project, the Iwakuni Runway Relocation Project (IRRP).[270] The latter project, which began in 1997 and cost $2.4 billion, was requested by the City of Iwakuni to relocate a runway that was causing noise and safety concerns for the local Japanese community.[271] The local governor approved the landfill permit for the runway project "with the condition that 'GOJ makes every effort to develop new seaweed beds and tidal flats at the sea area around this reclamation area by getting instruction and advice from specialists.'"[272] The runway was completed in 2010. Now FIP funds are being used for the seaweed project which will not be completed until 2024.[273]

#### c. *FIP Lacks Transparency*

In addition to lacking control over how FIP funds are spent, the U.S. also suffers from FIP's lack of transparency. For example, USFJ is not able to review construction contracts between GOJ and the contractors that perform the work on U.S. installations. According to USFJ, GOJ has consistently refused to provide copies of the bid documents or construction

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[264] U.S. Forces Japan, *JFY13 Japan Facilities Improvement Program – Integrated Priority List* (undated).
[265] U.S. Forces Japan, *JFY11 JFIP Integrated Priority List* (2011).
[266] It is unclear why the golf netting was not paid out of Non-Appropriated Funds (NAF) since the golf course was built with NAF funds. Spreadsheet attached to email from Edward Richards to Committee staff.
[267] Senate Armed Services Committee (SASC) STAFFDEL request for Facilities Improvement Program (FIP) project information, attached to Email from Department of Defense Office of Legislative Counsel to Committee staff (July 19, 2012).
[268] *Id.*
[269] Senate Armed Services Committee (SASC) STAFFDEL request for Facilities Improvement Program (FIP) Project Information: MC981 Seaweed Bed/Tidal Flat (undated), attached to Email from Department of Defense Office of Legislative Counsel to Committee staff (July 19, 2012).
[270] *Id.*
[271] *Id.*
[272] *Id.*
[273] *Id.*

contracts that reflect the cost of the projects, as a result, the U.S. is unable to verify amounts actually spent on FIP projects.[274]

### *B. Planned Posture Changes*

The Committee reviewed recent U.S.-Japan agreements pertaining to plans for U.S. military realignment in the Pacific. As described below, the review identified significant military construction costs that the U.S. will incur as a result of the loss of Japanese contributions for the move of U.S. Marines off of the island of Okinawa. The review also revealed potentially significant unknown costs associated with the most recent proposed force laydown. It found that uncertain timelines for completing necessary projects, such as a replacement facility for Marine Corps Air Station Futenma, will likely lead to additional U.S. costs. Uncertainty about those costs cautions against lifting the Congressional restriction on DOD spending to implement the posture changes until detailed estimates are completed.

#### 1. U.S. Realignment Plans

##### *a. U.S. and Japan Roadmap for Realignment*

In early 2005, Secretary of State Condoleeza Rice and Secretary of Defense Donald Rumsfeld hosted Japan's Minister for Foreign Affairs and other high-level Japanese officials in a meeting of the United States-Japan Security Consultative Committee (SCC).[275] At the meeting, the two sides agreed to "intensify their consultations" relating to the realignment of U.S. forces in Japan."[276] Later that year, the U.S. and Japan released a SCC document laying out a number of realignment initiatives, including accelerating the relocation of Marine Corps Air Station (MCAS) Futenma and the construction of a Futenma Replacement Facility (FRF) in the area of Camp Schwab in the northern part of Okinawa.[277] The document also recommended a move of approximately 7,000 Marines from Okinawa to Guam and discussed the "consolidation of those Marine Corps units that remain in Okinawa into a smaller total land area," allowing for land returns "in the densely populated areas south of Kadena Air Base."[278]

The following year, the U.S. and Japan released the United States-Japan Roadmap for Realignment Implementation plan ("Roadmap Agreement") that provided greater detail about the realignment initiatives.[279] The Roadmap Agreement stated that "construction and other costs for facility development in the implementation of these initiatives will be borne by the Government of Japan (GOJ) unless otherwise specified" and that the United States "will bear the operational

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[274] Committee staff meeting with U.S. Forces Japan (June 27, 2012).
[275] GAO Asia Report at 21.
[276] U.S.-Japan Security Consultative Committee, *Joint Statement* (February 19, 2005).
[277] Security Consultative Committee Document, *US-Japan Alliance: Transformation and Realignment for the Future* (October 29, 2005) at 10-11.
[278] Security Consultative Committee Document, *US-Japan Alliance: Transformation and Realignment for the Future* (October 29, 2005) at 12.
[279] United States – Japan Roadmap for Realignment Implementation (May 1, 2006).

costs that arise from implementation of these initiatives."[280] The Roadmap Agreement stated that "[a]pproximately 8,000 III Marine Expeditionary Force (MEF) personnel and their approximately 9,000 dependents will relocate from Okinawa to Guam by 2014."[281]

DOD estimated the cost of the relocation and build-up on Guam at approximately $10.3 billion and the Roadmap stipulated that, of the $10.3 billion, "Japan will provide $6.09 billion (in U.S. Fiscal Year 2008 dollars), including $2.8 billion in direct cash contributions, to develop facilities and infrastructure on Guam."[282] The Roadmap also stated that "[t]he III [Marine Expeditionary Force] relocation from Okinawa to Guam is dependent on: (1) tangible process toward completion of the FRF, and (2) Japan's financial contributions to fund development of required facilities and infrastructure on Guam."[283] Nearly three years later, the United States and Japan executed the Guam International Agreement, reaffirming their Roadmap commitments, including GOJ's $6.09 billion contribution and the requirement for "tangible progress" toward the completion of the FRF as a precondition of the relocation of Marines to Guam.[284]

#### *b. Senate Armed Services Committee and Government Accountability Office Express Concerns About Laydown Costs*

In the spring of 2011, leaders of the Senate Armed Services Committee expressed concern about the Department's force realignment plans in the Pacific. In early May of that year, Chairman Carl Levin, Ranking Member John McCain, and Senator Jim Webb called on DOD to "re-examine plans to restructure U.S. military forces in East Asia," calling DOD realignment plans "unrealistic, unworkable, and unaffordable."[285]

Later that same month, the Government Accountability Office (GAO) released a report raising concerns about the costs associated with DOD's planned force posture changes. GAO stated that "DOD has embarked on a major realignment of U.S. military posture in mainland Japan, Okinawa, and Guam, but has not developed comprehensive cost estimates for these initiatives."[286] The report stated that DOD's estimate of $10.3 billion for the move of Marines to Guam underestimated costs by at least $7.1 billion, not including $1.9 billion in costs required to build training ranges on the Northern Mariana Islands, necessitated by the fact that building

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[280] *Id.*

[281] *Id.* The number of Marines identified as moving from Okinawa represents an increase from the previous year's Security Consultative Committee Document's estimate of 7,000. *Compare with* Security Consultative Committee Document, *US-Japan Alliance: Transformation and Realignment for the Future* (October 29, 2005).

[282] Negotiating documents indicated that $2.8 billion (in 2008 dollars) of GOJ's $6.09 billion contribution would be in cash and $3.29 billion in equity investments and loans for housing and utilities infrastructure. United States – Japan Roadmap for Realignment Implementation (May 1, 2006); Department of Defense Information Paper, *Defense Policy Review Initiative* (July 24, 2012) at 1.

[283] United States – Japan Roadmap for Realignment Implementation (May 1, 2006).

[284] Agreement Between the Government of Japan and the Government of the United States of America Concerning the Implementation of the Relocation of III Marine Expeditionary Force Personnel and Their Dependents From Okinawa to Guam (February 17, 2009).

[285] Press Release: *Senators Levin, McCain, Webb Call for Re-Examination of Military Basing Plans in East Asia* (May 11, 2011).

[286] GAO Asia Report at 21.

sufficient ranges for the Marines on Guam was not feasible.[287] GAO estimated the total cost of the Guam buildup and Northern Mariana Islands training range at $19.3 billion, of which Japan was to contribute $6.1 billion, leaving the U.S. portion of the bill at approximately $13.2 billion, or more than two-thirds of the total cost.[288]

GAO also pointed out that the U.S. had not even estimated costs to implement other initiatives under the Roadmap Agreement, including the return of installations in populated areas of Okinawa and the associated construction of installations in less populated areas of the island (hereinafter referred to as the Okinawa Consolidation).[289]

#### *c. New Force Laydown Proposed*

Following GAO's release of its report, Chairman Levin again called on DOD to "re-examine" its plans while Senator McCain called for "a pause in the use of taxpayer funds" for the initiatives.[290] Senator Webb noted the "urgent need" to address the basing issues.[291] Following GAO's report and the Congressional reaction to the high costs associated with the plan, in April 2012, the SCC released a new Joint Statement announcing a revised force laydown.[292]

The new plan envisions approximately 5,000 Marines moving to Guam and distributing others across the Pacific including to Hawaii and the continental United States. The plan also includes a rotational Marine presence in Australia.[293] The Marine Corps has produced a rough order of magnitude cost estimate for the revised laydown of $13.7 billion.[294]

#### *d. Congress Sets Conditions on Funding*

In response to concerns about cost and feasibility of force realignment plans, the Senate Armed Services Committee included provisions in the Fiscal Year 2012 National Defense Authorization Act (NDAA) prohibiting the Department from spending funds, including GOJ

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[287] These costs were identified by the Marine Corps and were in addition to the $10.3 billion previously identified by DOD. The $7.1 billion also covered the cost of moving 1,700 Marines from Okinawa to Hawaii under the original laydown. GAO Asia Report at 25-26, 34; U.S. Marine Corps responses to October 18, 2012 Committee staff questions (October 26, 2012).

[288] GAO Asia Report at 25. The GAO Asia Report rounded up GOJ's contribution from $6.09 billion to $6.1 billion.

[289] The report stated that, according to DOD officials "comprehensive cost estimates for posture initiatives in Japan, including all costs that will be incurred by the United States, have not been completed because there are many uncertainties surrounding initiative implementation schedules." GAO Asia Report at 27, 34.

[290] Senator Carl Levin, Press Release: *GAO Report Validation Recommendations for Bases in East Asia; Action Needed to Re-Examine DoD Planning* (May 26, 2011).

[291] *Id.*

[292] Joint Statement of the Security Consultative Committee (April 27, 2012); Committee staff meeting with U.S. Department of Defense regarding Special Purpose Entities (June 19, 2012).

[293] U.S. Marine Corps, Presentation: *Distributed Laydown* (May 4, 2012) at 13.

[294] U.S. Marine Corps, *United States Marine Corps Response to SASC PSM Questions on Preliminary ROM "Distributed Laydown" Cost Estimate* (May 31, 2012).

funds, for the realignment of Marines until certain conditions were met.[295] A modified version of those prohibitions was included in the Fiscal Year 2013 NDAA.[296] The 2013 NDAA provides that funds cannot be spent until:

> 1) The Commander of United States Pacific Command provides Congress an assessment of the strategic and logistical resources needed to ensure the distributed lay-down of members of the United States Marine Corps in the USPACOM Area of Responsibility meets the contingency operation plans;
>
> 2) The Secretary of Defense submits master plans for the construction of facilities and infrastructure to execute the distributed lay-down on Guam and Hawaii, including a detailed description of costs and the schedule for such construction;
>
> 3) The Secretary of the Navy submits a plan detailing proposed investments and schedules required to restore facilities and infrastructure at MCAS Futenma; and
>
> 4) A plan coordinated by all pertinent Federal agencies regarding work, costs, and schedule for completion of construction, improvements, and repairs to the non-military utilities, facilities and infrastructure, if any, on Guam affected by realignment of forces is submitted to Congress.[297]

2. Japan's Contribution to Realignment

The April 2012 SCC statement regarding the new proposed force laydown stated that GOJ's direct *cash* contribution toward the cost of implementing the revised laydown would be consistent with their previous commitments.[298] With regard to the $3.29 billion in Japanese support that the United States was supposed to receive in addition to the cash contribution, the SCC statement said that "other forms of Japanese financial support to Guam relocation *would not* be utilized."[299]

#### *a. Roadmap Agreement Includes $6.09 Billion Japanese Contribution*

Under the original Roadmap Agreement, GOJ was to contribute $6.09 billion to defray U.S. costs associated with the move of Marines from Okinawa to Guam. Of that amount, $2.8 billion was to be in cash. For the balance, GOJ proposed, in lieu of cash, the creation of Special

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[295] 2012 National Defense Authorization Act, Section 2207: Guam Realignment (December 31, 2011). The 2012 NDAA also required that the Secretary of Defense certify to Congress that tangible process had been made on the Futenma Replacement Facility. That section was not included in the 2013 NDAA. *Id.*
[296] 2013 National Defense Authorization Act for Fiscal Year 2013, Section 2208: Realignment of Marines in the Asia-Pacific Region (January 2, 2013).
[297] *Id.*
[298] Joint Statement of the Security Consultative Committee (April 27, 2012). The amount of the direct cash contribution was cited in the statement as $3.1 billion. That figure represents Japan's original $2.8 billion commitment inflated to 2012 dollars. U.S. Marine Corps, Presentation: *United States Marine Corps Distributed Laydown* (May 4, 2012) at 14.
[299] Joint Statement of the Security Consultative Committee (April 27, 2012).

Purpose Entities ("SPEs") to finance $3.29 billion in family housing and utilities infrastructure projects on Guam.[300] Under those proposed SPEs, GOJ would invest in military housing and improving the utilities infrastructure on the island and, in return, recoup part or all of its investments through rent and utility payments respectively.[301] The U.S. would benefit by avoiding having to appropriate funds for U.S. military construction.

Disagreements developed, however, about the nature of Japan's contribution. After the Roadmap Agreement was negotiated, GOJ apparently began to insist on a guaranteed return on its investment in the SPEs, a guarantee the U.S. believed was inconsistent with the original agreement and was unwilling to provide.[302] One DOD official involved in the talks said that, by 2010, GOJ was insisting on an increase in the Department's Overseas Housing Allowance (OHA) rental rate and utility payments in order to better its return on its investment in the SPEs.[303] According to the Navy, "the U.S. and Japan never reached full agreement on the recoverability of Japanese financing."[304]

Nevertheless, between 2006, when the Roadmap Agreement was reached, and 2011, public statements reiterated that GOJ's total contribution would be over $6 billion. As recently as June 21, 2011, the SCC stated that both the U.S. and Japan "confirmed their commitment to ensuring the funding necessary for the steady implementation of the relocation in accordance with the terms and conditions of the Roadmap and the Guam International Agreement," both of which had indicated Japan's contribution at $6.09 billion.[305]

(It is also worth noting that the actual amount of Japan's contribution to the SPEs appears to have been overstated by $450 million.[306] A negotiating document relating to the agreement stated that "Japan will finance $2.1B ($1.5 equity + .6B loan to project owner) to fund and develop 3,250 units of housing, *valued at* $2.55B by DOD."[307] While public statements credited Japan with a $2.55 billion contribution for housing infrastructure, the actual contribution was apparently only to be $2.1 billion. The $450 million difference representing avoided U.S. military construction costs, rather than GOJ's actual contribution.[308])

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[300] Committee staff meeting with U.S. Department of Defense regarding Special Purpose Entities (June 19, 2012).
[301] Committee staff telephone conference with former Japan Director at OSD (August 27, 2012).
[302] When the contribution was first being negotiated, the parties used a working table that stated that $740 million of GOJ's contribution for utilities, and $2.1 billion of its contribution for housing, would be "recoverable." According to the individual who was DOD's Japan Director from 1999 to 2006, the U.S. position during the negotiations and after the agreement was reached was that the U.S. would not guarantee the recoverability of GOJ's investment. U.S. Navy, Information Paper: *Defense Policy Review Initiative – Guam* (July 24, 2012); Committee staff telephone conference with former Japan Director at OSD (August 27, 2012).
[303] Committee staff telephone conference with former Japan Director at OSD (August 27, 2012). OHA is a monthly allowance paid to service members assigned to permanent duty stations overseas and who are authorized to live in private housing. OHA includes rent, utilities and a move-in housing allowance. Department of Defense Travel Website *available at* http://www.defensetravel.dod.mil/site/faqoha.cfm#Q1 (December 10, 2012).
[304] U.S. Navy, Department of Defense Information Paper, *Defense Policy Review Initiative – Guam* (July 24, 2012).
[305] Security Consultative Committee Document, *Progress on the Realignment of U.S. Forces in Japan* (June 21, 2012) at 2.
[306] U.S. Navy, Information Paper: *Defense Policy Review Initiative – Guam* (July 24, 2012).
[307] *Id.*
[308] Committee staff telephone conference with former Japan Director at OSD (August 27, 2012).

### *b. SPEs Off the Table – U.S. to Incur Additional $1 Billion in Costs*

The April 2012 SCC statement indicated that Government of Japan would no longer provide the non-cash portion of the $6.09 billion it had previously committed.[309] According to DOD, under the revised plan, the SPEs proposed by Japan to meet $3.29 billion of that commitment, were no longer viable as the number of Marines paying rent and utilities on Guam would be insufficient to allow GOJ to recoup its investment in a reasonable period of time.[310]

The loss of the SPEs leaves the U.S. responsible for significant military construction costs that would previously have been funded through the SPEs. Estimates for the new plan include at least $1 billion of U.S. military construction costs on Guam that would have been covered by the SPEs, including $400 million in housing costs and $600 million to fund water and wastewater utilities upgrades.[311] The reduction in Japanese financial support was in spite of the fact that GOJ representatives have said that that they are "very much in support" of the new force laydown, that it meets Japan's security concerns, and reduces the U.S. presence on Okinawa.[312]

## 3. MCAS Futenma and the Futenma Replacement Facility (FRF)

In 2006, as part of the Roadmap Agreement, the U.S. and GOJ announced that GOJ would build a Futenma Replacement Facility (FRF) to replace Marine Corps Air Station (MCAS) Futenma at Camp Schwab in the less populated Henoko area of Okinawa. MCAS Futenma has been a U.S. military base since 1945. The primary mission of MCAS Futenma is to "maintain and operate facilities and provide services and materials to support Marine aircraft operations."[313] Futenma is surrounded by Ginowan City and since the 1990s, there have been discussions regarding closing the base and moving it to a less populated area on Okinawa.[314]

### *a. No Timeline for FRF Completion*

The 2006 Roadmap Agreement stipulated that the U.S. would move approximately 8,000 Marines and their dependents off Okinawa when "tangible progress" was made on the FRF.[315]

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[309] Joint Statement of the Security Consultative Committee (April 27, 2012); U.S. Marine Corps, Presentation: *United States Marine Corps Distributed Laydown* (May 4, 2012) at 14; Agreement Between the Government of Japan and the Government of the United States of America Concerning the Implementation of the Relocation of III Marine Expeditionary Force Personnel and Their Dependents from Okinawa to Guam (February 17, 2009).
[310] Committee Staff telephone conference with former Japan Director at OSD (August 27, 2012); Committee staff telephone calls with NAVFAC and Joint Guam Program Office (July 31 & August 22, 2012).
[311] U.S. Marine Corps, *United States Marine Corps Response to SASC PSM Questions on Preliminary ROM "Distributed Laydown" Cost Estimate* (May 31, 2012). "~$2.5B to Family Housing Special Purpose Entity (SPE) included in PL estimate replaced by ~$0.4B in US MILCON for Guam PCS housing requirements." *Id.* "Assumption of ~600M total, paid for by USG, to fund Northern water and wastewater that would have previously been paid for by GOJ." *Id.*
[312] Committee staff meeting with representative of the Japanese Ministry of Defense (October 10, 2012); Committee staff meeting with representative of the Japanese Ministry of Foreign Affairs (July 17, 2012).
[313] GAO, *Overseas Presence: Issues Involved in Reducing the Impact of the U.S. Military Presence on Okinawa* (March 1998).
[314] *Id.*
[315] United States – Japan Roadmap for Realignment Implementation (May 1, 2006).

However, in in the April 2012 Statement, the move of Marines off of Okinawa was "de-linked" from the requirement for tangible progress on the FRF, and the 2014 date for completion of the FRF was abandoned.[316]

Headquarters Marine Corps (HQMC) and USFJ have developed an estimated schedule for the FRF that projects completion of the facility by 2021. There are significant obstacles, however, that make it unlikely that schedule can be met.[317] In December 2012, the Ministry of Defense (MOD) submitted a final Environmental Impact Study for the FRF to the governor of the Okinawa Prefecture.[318] That allowed the MOD to submit, in March 2013, an application to the governor for a permit to construct the massive landfill required to build the FRF. The schedule for the governor to approve that application is uncertain, however, particularly given the continuing controversy surrounding the proposed move to Camp Schwab.[319] In fact, the governor has the authority to reject the application.[320]

While the current Marine Corps timeline accounts for only four years for the completion of the landfill at Camp Schwab, a similar, less complicated landfill project at Iwakuni took ten years to complete.[321] As the Committee has already noted, regarding the plan for a landfill at Camp Schwab:

> While it appears that such an enormous undertaking is technically achievable, the reality is that the cost and time required to complete it, combined with the substantial local political and public opposition to the plan, make it clear that the project will likely never be finished; and, even if it is, it will cost more and take longer than even the most conservative estimates have projected to date.[322]

GOJ is expected to pay for the majority of the construction costs for the FRF.[323] However, the Marines have said that the U.S. will incur approximately $200 million in one-time construction costs.[324]

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[316] Joint Statement of the Security Consultative Committee (April 27, 2012); *see also* U.S. State Department, Japan Country Page *available at* http://www.state.gov/r/pa/ei/bgn/4142.htm (September 27, 2012); U.S. Marine Corps Installation Pacific, *Defense Policy Review Initiative (DPRI) Presentation* (June 28-29, 2012).
[317] U.S. Marine Corps Installation Pacific, *Defense Policy Review Initiative (DPRI) Presentation* (June 28-29, 2012); U.S. Marine Corps, *Futenma Replacement Facility (FRF) Top Level Schedule* (August 13, 2012).
[318] Committee staff meeting with representative of the Japanese Ministry of Defense (October 10, 2012); Email from U.S. Marine Corps to Committee staff (March 18, 2013).
[319] 2012 National Defense Authorization Act Report to Accompany S.1253, Items of Special Interest, Report on the Feasibility of Moving Marine Corps Aviation on Okinawa from Marine Corps Air Station Futenma to Kadena Air Base (June 22, 2011).
[320] Committee staff meeting with representative of the Japanese Ministry of Foreign Affairs (July 17, 2012); Email from U.S. Marine Corps to Committee staff (March 18, 2013); U.S. Department of Defense, Press Release: *Statement on Futenma Replacement Facility Landfill Permit Request* (March 22, 2013).
[321] Email from U.S. Marine Corps to Committee staff (October 11, 2012); Committee staff meetings with U.S. Forces Japan and U.S. Marine Corps Installation Pacific (June 27-29, 2012).
[322] FY 2012 National Defense Authorization Act Report to Accompany S.1253, Items of Special Interest, Report on the Feasibility of Moving Marine Corps Aviation on Okinawa from Marine Corps Air Station Futenma to Kadena Air Base (June 22, 2011).
[323] Committee staff meetings with U.S. Forces Japan and U.S. Marine Corps Installation Pacific (June 27-29, 2012).
[324] U.S. Marine Corps, *Estimated DPRI Related Costs for FRF (Camp Schwab)* (undated).

### b. *Marine Corps Air Station Futenma: "Closing Since 1996"*

While a realistic timeline for building the FRF has remained elusive, expectations that MCAS Futenma would be closed have led to a significant maintenance and repair backlog at the base. The issue of Futenma sustainment has been a concern for decades.[325] According to a 1998 GAO report, "[b]ecause of the planned closure of MCAS Futenma, the government of Japan cancelled about $140 million worth of projects at the air station."[326] Since the 1990s that lack of funding has continued. According to Marine Corps Installations Pacific (MCIPAC), GOJ has been unwilling to fund renovation and repair projects for MCAS Futenma because it has been slated for return.[327] GOJ has only provided FIP funding for a few minor projects at Futenma since 1996.[328]

Many of the facilities at MCAS Futenma are over 50 years old.[329] The April 2012 SCC statement announced that the U.S. and GOJ would "contribute mutually" to necessary refurbishment projects at MCAS Futenma.[330] However, according to the U.S. State Department, as of June 2012, GOJ was only willing to fund projects at Futenma that were safety or environment-related.[331] In addition, the April SCC 2012 statement did not identify a source of funding for GOJ's contribution. Both USFJ and the Marines have said that they expect GOJ to use FIP funding for Futenma projects.[332] As discussed above, however, the pool of FIP funding is limited and many top priorities are already unfunded.

#### *b. Critical Repairs Needed at MCAS Futenma*

The failure to maintain Futenma has resulted in a back-log of renovation and repair projects at the facility. As of 2012, the Marines had identified approximately $180 million worth of necessary military construction and renovation projects.[333] According to MCIPAC:

> MCAS Futenma will require significant investment in facility sustainment and capital improvements to maintain mission capability and readiness for the next 10 years.[334]

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[325] GAO, *Overseas Presence: Issues Involved in Reducing the Impact of the U.S. Military Presence on Okinawa* (March 1998) at 4.
[326] GAO, *Overseas Presence: Issues Involved in Reducing the Impact of the U.S. Military Presence on Okinawa* (March 1998) at 37.
[327] Committee staff meeting with U.S. Marine Corps Installation Pacific (June 28, 2012).
[328] Email from U.S. Marine Corps to Committee staff (December 7, 2012). According to the U.S. Marine Corps, the following projects have been funded with FIP funds since 1996: Two temporary warehouses (1998); two BEQ renovations (1998); and the installation of Runway End Identifier Lights and a Precision Approach Path Indicator system (2009). *Id.*
[329] U.S. Marine Corps Installation Pacific, Presentation: *Marine Corps Air Station Futenma: "Closing Since 1996"* (June 28, 2012).
[330] Joint Statement of the Security Consultative Committee (April 27, 2012).
[331] Committee staff meeting with U.S. State Department (June 25, 2012).
[332] Email from U.S. Marine Corps to Committee staff (August 21, 2012); Committee staff meetings with U.S. Forces Japan and U.S. Marine Corps Installation Pacific (June 27-29, 2012).
[333] U.S. Marine Corps Installation Pacific, Presentation: *Marine Corps Air Station Futenma: "Closing Since 1996"* (June 28, 2012) at 9-11.
[334] U.S. Marine Corps Installation Pacific, Presentation: *Marine Corps Air Station Futenma: "Closing Since 1996"* (June 28, 2012).

For example, one building had to be "abandoned due to roof/ceiling structure compromise, concrete spalling, and exposed and corroded rebar."[335] MCIPAC described problems at another building on the base:

> There is extensive concrete spalling and cracking throughout the building. Several balconies require scaffolding reinforcement. Structural survey/study found beyond reasonable repair.[336]

Due to the deteriorated conditions of the base sewage system, there have been "a number of large emergency repairs required in recent years."[337] One hangar flooded due to the storm drainage system being insufficient to handle runoff.[338] Sanitary sewer lines are "very old and severely deteriorated."[339] According to the MCIPAC,

> The storm drainage system is a safety and environmental concern. During heavy rains and typhoons, the storm drainage system is overwhelmed and flooding occurs. Besides soil runoff due to flooding, buildings, pavement, or infrastructure can be damaged by erratic water flows and undermining of the structures.[340]

The $180 million of necessary projects also includes an airfield security fence, a hanger to accommodate the new MV-22 Osprey, an upgraded main gate, and a new bachelor officer quarters structure.[341] One runway needs a 1,000 foot overrun to accommodate the new Ospreys and to "minimize the probability of serious damage to an aircraft should the aircraft run off the runway end during takeoff or landing, or land short during a landing."[342] The runway also requires runway/taxiway shoulders in order to "help reduce the possibility of serious damage should an aircraft depart the primary transitioning surface."[343] These projects are currently unfunded.

Many projects, including upgrading the main gate and constructing a new hangar for the Ospreys, have not been funded, in part, because GOJ is reportedly reluctant to fund projects that make MCAS Futenma appear as an enduring base.[344] However, many of these same projects have been made necessary by the failure to build the Futenma Replacement Facility (FRF). While GOJ has agreed to "mutually" contribute to Futenma's sustainment until the FRF is constructed, the U.S. faces the prospect of bearing the brunt of renovation and military

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[335] *Id.*
[336] *Id.*
[337] *Id.*
[338] *Id.*
[339] U.S. Marine Corps, *MCAS Futenma FSRM List FY12-FY18* (undated).
[340] U.S. Marine Corps, *MCAS Futenma MilCon List* (undated).
[341] U.S. Marine Corps Installation Pacific, Presentation: *Marine Corps Air Station Futenma: "Closing Since 1996"* (June 28, 2012).
[342] U.S. Marine Corps Installation Pacific, Presentation: *Marine Corps Air Station Futenma: "Closing Since 1996"* (June 28, 2012) at 11.
[343] *Id.*
[344] Committee staff meetings with U.S. Forces Japan and U.S. Marine Corps Installation Pacific (June 27-29, 2012).

construction costs at Futenma. In addition, any expenditure of FIP funding for Futenma will likely come at the expense of other U.S. priorities.

4. New Asia-Pacific Force Laydown - Unknown Cost and Uncertain Timing

As discussed above, when the plan for moving forces from Okinawa to Guam was announced in the 2006 Roadmap Agreement, DOD estimated the cost of the relocation and build-up on Guam at approximately $10.3 billion. The $10.3 billion estimate, however, did not capture major costs associated with the plan, including environmental mitigation and site development costs.[345] The estimate did not account for the cost of other facilities necessitated by the move, including building training ranges on the Northern Mariana Islands.[346] Nor did it include $900 million in costs associated with moving 1,700 Marines from Okinawa to Hawaii.[347] According to GAO, including these in the estimate would have increased the cost of the original laydown to approximately $19 billion.[348] It was in part because of the costs associated with the plan that the Department of Defense revised its force laydown plan.[349]

As shown in Figure 12, the revised plan re-distributes the III Marine Expeditionary Force (MEF) across the Pacific instead of concentrating them on Guam and Hawaii.

**Figure 12**[350]

**Marine Force Laydown**

| | Original Laydown | Revised Laydown |
|---|---|---|
| Japan (Iwakuni & Okinawa) | 13800 | 14954 |
| Guam | 9700 | 4776 |
| Hawaii | 8200 | 8830 |
| Australia | N/A | 2485 |
| Continental U.S. | N/A | 800 |
| TOTAL | 31700 | 31845 |

Implementing the revised laydown will involve the eventual restationing of thousands of Marines to three continents over at least twenty years. The Marine Corps cost estimate for the plan is $13.7 billion. However, as the Marine Corps has acknowledged, the $13.7 billion is a preliminary rough order of magnitude estimate.[351] Each component of the plan has its own complications and unknown factors that will affect both the timeline and the estimated costs.

[345] U.S. Marine Corps, Presentation: *United States Marine Corps Distributed Laydown* (May 4, 2012).
[346] *Id.*
[347] U.S. Marine Corps responses to October 18, 2012 Committee staff questions (October 26, 2012).
[348] GAO Asia Report at 25.
[349] Joint Statement of the Security Consultative Committee (April 27, 2012).
[350] U.S. Marine Corps responses to November 13, 2012 Committee staff questions (November 26, 2012).
[351] Committee staff briefing with U.S. Marine Corps (May 4, 2012).

- **Guam** – The Marine Corps' rough order of magnitude cost estimate for the Guam portion of the revised laydown is $8.6 billion.[352] That estimate, however, does not account for other potential costs, such as additional lift that might be required due to the plan's proposed force laydown.[353] In addition, the Guam timeline is uncertain. Before most of the construction of infrastructure on Guam can begin, a new supplemental environmental impact study (SEIS) needs to be completed. That SEIS is expected to take two years.[354] Even were the spending ban imposed by Congress to be lifted, the Marine Corps Guam timeline projects that military construction on Guam would not begin until 2016 and would not be completed until 2024.[355]

- **Hawaii** - The Marines have estimated the cost of moving approximately 2,500 forces from Okinawa to Hawaii at $2.5 billion.[356] However, that estimate is highly speculative. A study of possible locations started in August 2012 and will not be completed until December 2013.[357] As of November 2012, a number of locations for stationing those forces were being considered, including Pearl City Peninsula, Ford Island, and Naval Computer and Telecommunications Area Master Station Pacific.[358] Only when a site is chosen can the required environmental impact study be initiated and costs be better quantified.[359]

- **Australia** - According to the Marine Corps, the Australia component of the revised laydown is an "event-driven, phased implementation" in four phases starting with a small, 250 Marine rotational force and gradually increasing the size of the force to a 2,500 Marine Air Ground Task Force.[360] The Marines preliminary estimate of the U.S. cost to support a rotational force in Australia is $1.6 billion.[361] However, a joint facilities assessment of existing and needed facilities is not expected to be complete until June 2013.[362] In addition, a decision regarding where the forces that will rotate into Australia will be permanently stationed has not yet been made. While DOD is exchanging views with the Australian Government on a number of sensitive issues that will *likely* lead to a future agreement, as of March 2013, negotiations were still ongoing.[363] Given these uncertainties, the timeline and actual cost of moving troops to Australia cannot be predicted with any confidence.[364]

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[352] U.S. Marine Corps, *United States Marine Corps Distributed Laydown Presentation* (May 4, 2012) at 15.
[353] *Id.*
[354] Committee staff briefing with U.S. Marine Corps (May 4, 2012).
[355] U.S. Marine Corps, *United States Marine Corps Distributed Laydown Presentation* (May 4, 2012); Committee staff meeting with U.S. Marine Corps Headquarters (August 2, 2012).
[356] U.S. Marine Corps, *United States Marine Corps Distributed Laydown Presentation* (May 4, 2012).
[357] U.S. Marine Corps answers to October 18, 2012 Committee staff questions (October 26, 2012).
[358] U.S. Marine Corps, *United States Marine Corps Distributed Laydown Presentation* (May 4, 2012) at 26.
[359] U.S. Marine Corps answers to October 18, 2012 Committee staff questions (October 26, 2012).
[360] U.S. Marine Corps Presentation, *United States Marine Corps Distributed Laydown* (May 4, 2012).
[361] *Id.*
[362] *Id.*; U.S. Marine Corps answers to October 18, 2012 Committee staff questions (October 26, 2012).
[363] U.S. Marine Corps answers to October 18, 2012 Committee staff questions (October 26, 2012) (emphasis added); Email from U.S. Marine Corps to Committee staff (March 20, 2013).
[364] U.S. Marine Corps answers to October 18, 2012 Committee staff questions (October 26, 2012).

- **Okinawa Consolidation** – A bilateral Okinawa consolidation plan was not finalized until April 2013, and many of the facility returns on Okinawa are not scheduled to occur for a decade or longer.[365] For example, the plan estimates the return of the Naha Port in Japanese Fiscal Year 2028 or later.[366] Given uncertainty in the implementation timeline, it is unclear how the future force laydown will affect U.S. costs. For example, the Committee asked each of the services for estimates of operations and maintenance (O&M) costs after force posture changes associated with the Okinawa Consolidation are complete. The U.S. Navy identified one change – an increase of approximately $2-3 million per year due to the move of the carrier air wing from Atsugi to Iwakuni.[367] The other services, however, were unable to provide an estimate of future O&M costs following the Okinawa Consolidation.

Many of the troop movements planned in the revised laydown are inter-dependent. Several aspects of the Okinawa Consolidation plan, for example, cannot be effectuated until the build-up of Guam infrastructure is completed.[368] Additionally, some of the Okinawa Consolidation plan is dependent on the completion of the FRF, which is unlikely to be completed in the next decade.

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[365] U.S. Department of Defense, *Consolidation Plan for Facilities and Areas in Okinawa* (April 2013).
[366] *Id.*
[367] U.S. Naval Forces, Japan, Navy O&M and DPRI Impact (June 27, 2012); USFJ responses to Committee staff questions (July 27, 2012).
[368] Committee staff meeting with U.S. Marine Corps Headquarters (August 2, 2012).

## COMMITTEE ACTION

On March 20, 2013, by voice vote, the Committee adopted the report and conclusion of the inquiry into U.S. costs and allied contributions to support the U.S. military presence overseas. Eighteen Senators were present. No Senator voted in the negative.