



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

July 1, 1998

Honorable Thomas A. Daschle
Democratic Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

In your April 17 letter, you pose 10 questions about base realignment and closure (BRAC) actions. This letter responds to those questions. In addition, I have enclosed the Congressional Budget Office's (CBO's) review of *The Report of the Department of Defense on Base Realignment and Closure*, which elaborates on many of the issues you address in your letter.

Actual BRAC Savings. The Department is able to provide reasonable estimates of BRAC savings. Yet the firm measures of BRAC savings that were requested by the Congress do not—and indeed cannot—exist. BRAC savings are really avoided costs—costs that DoD would have incurred if BRAC actions had not taken place. Because those avoided costs are not actual expenditures, DoD cannot observe them and record them in its financial records. As a result, DoD can only estimate savings rather than actually measure them.

DoD Information Systems. It is not possible for DoD to establish an information system to track actual savings. The BRAC budget justification books track only estimated savings. DoD is more successful in tracking one-time implementation costs, which typically reflect actual expenditures made from BRAC accounts. Its information systems, however, cannot always categorize those expenditures in the most useful way. For example, in its report, DoD could not provide BRAC obligations by base type for the Navy and the defense agencies. To comply with the spirit of the request in section 2824(g), DoD might try to provide better documentation of how the budget estimates for savings are made and to maintain more accessible records of BRAC costs on an installation-by-installation basis.

Economic Effects of Future BRAC Rounds. DoD's report does not make detailed projections of the specific outcomes of future BRAC rounds. The economic impact of base closures on communities depends on many factors, including the size and strength

of the local economy and whether the community is urban or rural. An analysis of the likely impact of future base closures on local communities cannot be attempted until the specific communities are identified; even then, it would be very difficult to do.

Information Provided in DoD's Report. The DoD report provides most, but not all, of the information that the Congress requested. As noted above, it does not provide data that would require projecting the specific outcomes of future BRAC rounds. In addition, DoD was unable to locate some of the requested data, including the original cost and savings estimates that it gave to the BRAC commissions.

DoD's Analysis of Excess Capacity. DoD's report determines excess capacity based on the change in the ratio of forces to supporting bases since 1989. Although that approach is not unreasonable, the resulting estimates of excess capacity depend heavily on what specific indices are used for the size of the forces and of their supporting bases. In addition, that approach can understate or overstate the current level of excess capacity for particular types of bases depending on whether DoD had too many or too few bases of those types in 1989.

Overseas Base Capacity. DoD's capacity analysis does not address overseas forces or bases. The estimates of excess capacity presented in DoD's report refer to the percentages of excess capacity in the United States. The extent to which there may be a shortage or an excess of bases overseas relative to U.S. forces overseas does not affect the accuracy of those estimates or the need for base closures within the United States.

Savings from Past BRACs and Future Personnel Reductions. CBO found that the methodology used by DoD to show annual recurring savings of \$7 billion from the four prior BRAC rounds is relatively weak. Nonetheless, CBO believes that recurring savings from those BRAC rounds will be substantial—about \$5 billion annually, as is indicated by the services' BRAC budget documents.

DoD's current spending plan, which extends only to 2003, shows small reductions in the number of personnel in 2001 and beyond. Such reductions are not inconsistent with additional BRAC rounds in 2001 and 2005, because most of the savings and personnel reductions from those rounds would not be seen until after 2003. However, DoD will have to make significant reductions in personnel after 2001 to realize the level of BRAC savings that it projects from future rounds.

Future Savings Estimate. In its review of DoD's report, CBO concludes that the department's estimate of savings from future BRAC rounds is not unreasonable for planning. A more accurate estimate would require detailed projections about the outcomes of future BRAC rounds.

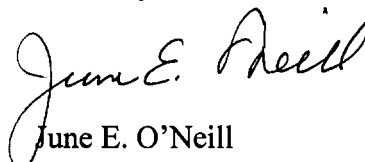
Costs Beyond the Implementation Period. DoD will incur environmental and caretaker costs for some bases after the six-year implementation period is over. In its review, CBO suggests that estimates of BRAC costs and savings would be more accurate if they included those costs.

Data Included in DoD's Report. Most of the data in the appendices to the DoD report are not new. Rather, they were compiled from several existing sources, including BRAC budget justification documents and other documents that DoD has submitted to the Congress. However, the report aggregates the data in new ways and presents them at levels of detail not previously available in a single document.

As your letter indicates, the issues surrounding military base closures are difficult ones. One problem is that if the BRAC process is going to work, the Congress must decide on the advisability of additional rounds without knowing in advance which bases would be affected and what the specific effects of those closures would be. Another difficulty is that the Congress must make those decisions even though the savings from previous rounds can only be estimated rather than tracked in DoD's financial records. The amount of savings from BRAC actions will always be impossible to estimate precisely. The reason is that the effects of BRAC actions are not easily disentangled from those of non-BRAC actions, such as mandated budget reductions or cuts in forces and workloads.

I hope that this response is helpful. Please contact me if you have any questions or if you would like to request additional work by CBO on BRAC issues. CBO's staff contact is Lauri Zeman, who can be reached at (202) 226-2900.

Sincerely,


June E. O'Neill
Director

Enclosure

IDENTICAL LETTER SENT TO HONORABLE TRENT LOTT
AND HONORABLE RICHARD GEPHARDT