

STATEMENT OF

MR. WAYNE ARNY

DEPUTY UNDER SECRETARY OF DEFENSE

(INSTALLATIONS AND ENVIRONMENT)

BEFORE THE

SUBCOMMITTEE ON MILITARY CONSTRUCTION,

VETERANS AFFAIRS AND RELATED AGENCIES

OF THE

SENATE APPROPRIATIONS COMMITTEE

APRIL 24, 2008

Chairman Johnson, Senator Hutchison, distinguished members of the Subcommittee. I appreciate the opportunity to appear before you today to address the President's Budget request for fiscal year (FY) 2009 and to provide an overview of the approach of the Department of Defense to the management of the Nation's military installation assets.

Overview

Installations are the foundation of America's security – these assets must be available when and where needed, with the capabilities to support current and future mission requirements. As the enterprise managers of the defense installations portfolio, we recognize the importance of ensuring their capabilities are delivered - effectively and efficiently.

America's military installations, including their associated environment, must sustain the home station and forward presence of U.S. forces and support training and deployments to meet the Nation's defense needs. They must provide a productive, safe, and efficient workplace, and offer the best quality of life possible for our military members and their families, as well as the civilian and contractor workforce.

The President and the Secretary of Defense challenged the military to transform itself to meet current and future threats to America's security. In addition to leading-edge weapon systems, doctrinal innovation, and the employment of technology, this transformation also requires a similar change in our approach to the fundamental infrastructure business practices and to the infrastructure "backbone" of the Department of Defense.

The Office of the Deputy Under Secretary of Defense (Installations and Environment) is a focal point in this transformation by fostering the best management practices in our traditional areas and by extending these practices as our force and base structures evolve.

Global Defense Posture

Supporting the warfighter involves much more than episodic spurts of support during combat and other operational missions. Supporting the warfighter requires a long-term, day-to-day commitment to deliver quality training, modern and well-maintained weapons and equipment, a safe, secure and productive workplace, a healthy environment, and good living conditions for our members and their families. Our installations are the core of U.S. combat power – and our installation assets are an inseparable element of the nation’s military readiness and wartime effectiveness.

The FY 2009 request continues the Department’s efforts to strengthen forward U.S. military presence, including facilities, personnel, infrastructure, and equipment. The Department continues to realign U.S. global defense posture to better contend with post 9-11 security challenges by transforming overseas legacy forces, Cold War basing structures, and host-nation relationships into a flexible, forward network of access and capabilities with allies and partners. These efforts include:

- Continued force posture realignments within and from Central Europe which enable advanced training and lighter, more flexible ground force capabilities to support NATO’s own transformation goals;
- Shifting our European posture South and East by transforming the 173rd Airborne Brigade in Italy and establishing a headquarters and infrastructure support for rotational presence in Romania and Bulgaria;
- Setting conditions for future realignments in the Pacific as part of U.S.-Japan force posture changes that will have far-reaching, beneficial impacts for the U.S.- Japan alliance;

- Continued consolidation and reduction of forces on the Korean peninsula to strengthen our overall military effectiveness for the combined defense of the Republic of Korea; and
- Developing basic infrastructure and capabilities for current and future operations in the U.S. Central Command area of responsibility and other war on terrorism operating regions.

Additionally, the FY 2009 request supports new Departmental initiatives, including the establishment of U.S. Africa Command, as DoD's global defense posture plans evolve and mature.

The Department continues to maintain and strengthen host-nation partnerships supporting support for these posture changes. The FY 2009 global defense posture projects ensure continued strengthening of forward capabilities for the Global War on Terror and other expeditionary non-traditional missions, commitment to alliance goals, and collective defense capabilities, and enhanced deterrent capabilities for addressing future security challenges.

Implementing Base Realignment and Closure (BRAC) 2005

As previously discussed to before this Committee, BRAC 2005 is the largest round of base closures and realignments undertaken by the Department. After an exhaustive examination of over 1,200 alternatives, the Secretary of Defense forwarded 222 recommendations to the BRAC Commission for its review. The Commission accepted about 65 percent without change and its resulting recommendations were approved by the President and forwarded to the Congress. The Congress expressed its support of these recommendations by not enacting a joint resolution of disapproval by November 9, 2005; therefore, the Department became legally obligated to close and realign all installations so recommended by the Commission in its report. These decisions affect over 800 locations across the Nation and include 24 major closures, 24 major realignments, and 765 lesser actions. The BRAC Act requires that the Department begin

implementation of each recommendation within two years of the date the President transmitted the Commission's report to the Congress and complete implementation of all recommendations within six years of that date which is September 15, 2011.

Beyond the comparative size, it is important to note that BRAC 2005 is the most complex round ever. This complexity is not merely a function of its magnitude, but is, to the largest extent, a function of the original goal established for this round: that BRAC 2005 would focus on the reconfiguration of operational capacity to maximize war fighting capability and efficiency. Focusing on operational capacity requires that we appropriately assess the increased military capabilities we are achieving through these recommendations.

The BRAC program is substantial; it represents a \$33.2 billion requirement over 2006-2011 and \$4B in annual savings after full implementation (after FY 2011). The Department originally estimated BRAC 2005 investment using the Cost of Base Realignment Actions (COBRA) model at \$22.5 billion (adjusted for inflation) with Annual Recurring Savings of \$4.4 billion. When compared to our current requirement there is a \$10.7 billion or 48 percent increase in these costs.

There are a number of reasons for this increase, and even though the reasons have been discussed in previous hearings they deserve repeating. The "COBRA" model used in arriving at the original estimates is a tool for comparative analysis that ensures all installations were treated equally as required by the BRAC law. As an analytical tool it is dependent on the quality of the input, which is based on the known conditions at the time the recommendations were developed without the benefit of detailed site surveys and thorough planning charrettes. As such, resulting estimates were never intended to be budget quality.

As a consequence, the primary cost increase drivers were market driven military construction (MILCON) factors and Army specific investments. MILCON makes up approximately 70 percent of this BRAC program (compared to about 33 percent in previous BRAC rounds). Therefore, this round was particularly influenced by price growth in the construction industry. Given the significance of MILCON on this round's implementation, it is not surprising that 85 percent of the cost growth is associated with construction.

Equally significant was the Army leadership's decision to invest an additional \$4 billion to recapitalize its total force, accommodate larger Army units and a growing force, and address the inflation addressed above. The Army leadership consciously chose to ensure that its troops had improved war fighting facilities such as training ranges, robust reserve component infrastructure, and quality of life facilities.

DoD also chose to make similar investments in other areas. For example, acting on the recommendations of the Independent Review Group that examined conditions at Walter Reed, the Department committed to accelerate the closure of Walter Reed. In addition, DoD leadership directed that the quality and scope of the new National Military Medical Center and the Fort Belvoir Community Hospital incorporate lessons learned from the current conflict. Investments in improvements, such as more single patient rooms and wounded warrior support infrastructure, increased costs. Similar cost growth has occurred for largely the same reasons in the San Antonio Military Medical Center.

Other DoD Components chose to recapitalize (build new) rather than renovate and expand existing facilities to accommodate mission change and incorporate lessons learned. For example, both the Missile Defense Agency and the National Geospatial Intelligence Agency determined that increased costs to build special compartmental intelligence facilities were worth

the added investment to meet mission needs. The Army originally intended to use existing space at Fort Knox, KY for the co-location/consolidation of its military personnel and recruiting command with the Accessions and Cadet Command creating a Human Resources Center (HRC) of Excellence. The Army determined the increased cost to build a “new” HRC complex was more cost effective than renovating 1950’s era facilities spread throughout the installation.

Finally, there were also increases in non-MILCON cost categories; such as environmental cleanup costs. These costs were not included in the original COBRA estimates by design. If clean up costs had been incorporated in COBRA, the process would have had an artificial bias to close only “clean” bases.

The Congress provided \$7.2 billion to the Department in FY 2008 to continue implementation of the BRAC recommendations, \$939 million less than what the FY 2008 President’s Budget requested. This cut compounds the problems already created from delayed appropriations in the last two fiscal years. Delays and cuts adversely affect construction timelines because approximately 70 percent of the BRAC 2005 effort directly supports military construction. Delays in funding and the \$939 million reduction present severe execution challenges and seriously jeopardize our ability to meet the statutory September 15, 2011 deadline. This will mean sacrificing savings that could have been achieved and delaying movement of operational missions.

If the \$939 million reduction is not restored, or even if it is restored late in the process, we will have to work, very, very hard to meet the statutory deadline. The magnitude of the reduction requires careful evaluation to support allocating the reduced funding within the Department so that only those projects with the highest priority, as determined by their

operational and/or business case effects, go forward on the schedule previously provided to Congress.

The \$9.2 billion for BRAC 2005 implementation and \$393.4 million for continuing environmental cleanup and caretaker costs at previous BRAC sites requested in the FY 2009 President's Budget is approximately \$1.1 billion more than the FY 2008 President's Budget request. The \$9.2 billion request represents full funding for BRAC 2005 implementation assuming the FY 2008 reduction is restored.

As my predecessor previously testified, the Department recognized the challenges for this BRAC round and responded by initiating a process to develop Business Plans that establish the requisite actions, the timing of those actions, and the costs and savings associated with implementing each recommendation. The documentation of savings in Business Plans directly responds to the observations made by the U. S. Government Accountability Office in previous reports regarding the Department's BRAC implementation process. Additionally, the OSD Office of the General Counsel has been a key player in reviewing the Business Plans to ensure that they are legally sufficient and to verify that the Department is meeting its legal obligations.

During the past year of BRAC implementation, the Department has several significant efforts that are underway. Specifically the award of a \$429 million (first increment) military construction project for the National Geo-Spatial Agency headquarters at Fort Belvoir, Virginia, and award of 17 military construction projects at Fort Bliss, Texas to support Army Global Rebasing, Transformation and BRAC. At Fort Sill, Oklahoma the military construction project supporting the establishment of the Net Fires Center that will improve training capabilities while eliminating excess capacity at institutional training installations is progressing. At Fort Bragg, North Carolina, two BRAC projects totaling \$80M were awarded and at Fort Riley, Kansas,

there are 6 BRAC MILCON projects that support Global Rebasing currently on going. We continue to make great progress at Fort Lee, Virginia, with the award of the projects that will support the creation of a Combat Service Support Center of Excellence and at Fort Benning, Georgia, with the consolidation of the Armor and Infantry schools. The Navy's largest BRAC 2005 operational action is to close Naval Air Station Brunswick, Maine and consolidate the East Coast maritime patrol operations in Jacksonville, Florida. The Navy awarded contracts for the final two increments to complete the contracting actions required to build a new hangar (\$123 million) for the P-3 squadrons that will move to Jacksonville. When completed in FY 2011, the Navy will have streamlined East Coast maritime patrol operations and expects to save over \$100 million per year.

Assisting Communities

The Department, through the Office of Economic Adjustment (OEA) and the Defense Economic Adjustment Program (DEAP), continues to work with states and the more than 175 communities across the country impacted by the effects of BRAC 05, Global Defense Posture Realignment (GDPR), Army Modularity, and "Grow the Force" actions.

To date, the Department has recognized Local Redevelopment Authorities (LRAs) for 110 BRAC sites, encompassing more than 47,000 acres of surplus property. These LRAs are expected to provide leadership and develop a redevelopment plan at each location. In some instances LRAs may also direct implementation of the redevelopment plan. The Department is assisting these LRAs as they conduct homeless outreach and seek to balance the needs of the communities in the vicinity of the installation for economic redevelopment and other development with the needs of the homeless as established by statute. Efforts to date have yielded completed redevelopment plans at 62 locations. Once completed, a redevelopment plan

is to be included as part of an application to the U.S. Department of Housing and Urban Development (HUD) for that Department's review for compliance with the statute.

Following HUD's review, the Military Departments work closely with affected LRAs to tailor disposal actions that consider local circumstances. The Department has an array of legal authorities by which to transfer property on closed or realigned installations. These include public benefit transfers, economic development conveyances at cost and no cost, negotiated sales to state or local government, conservation conveyances, and public sales, and the Military Department's National Environmental Policy Act analyses give substantial deference to the LRA's redevelopment plan.

The Department has disposed of approximately 481,290 acres, or 95 percent of the real estate made available in prior BRAC rounds (1988, 1991, 1993, & 1995). Federal assistance to these locations has exceeded \$1.9 Billion to date, and local redevelopment efforts in turn have resulted in the creation of over 137,500 jobs, more than offsetting the 129,600 civilian jobs that were lost as a result of the BRAC actions.

In addition to those communities that are affected by the closure and downsizing of military installations, OEA is working with locations experiencing a growth of missions and/or personnel. These locations are in close dialogue with their local installations to understand the timing and scope of this growth and many are developing growth management plans for additional community services and facilities to ease the absorption of the new DoD associated population. OEA hosted a December 2007 "Growth Summit" in St. Louis, bringing more than 260 Summit participants from affected communities and their neighboring military installations, where mission growth is expected, together with cognizant Federal agencies. The Summit introduced communities and these Federal agencies to each other and provided an opportunity

for participants to share their challenges, plans, and experiences regarding a variety of specific community growth issues including education, housing, transportation, workforce adjustment, infrastructure, healthcare, and compatible use/sustainability.

The challenge for many of these locations is to respond to a myriad of hard infrastructure (road, schools, houses, water and sewer) and soft infrastructure (public services, health care, child care, spousal employment) issues that directly bear on the quality of life for our warfighters, their dependents, and the homeowners, businesses, and workers in the surrounding communities. A primary concern is how to blend and apply local, state, and private resources to address local needs. Through this process, potential gaps in these civilian sources are emerging and OEA is working with each affected state and locale to understand these gaps and raise them with other Federal Agencies for consideration and action.

The ability to support states and communities affected by these DoD actions goes beyond the Department's capacities, resources, and authorities. Accordingly, the Department relies upon the Economic Adjustment Committee (EAC) to implement the Defense Economic Adjustment Program (DEAP) pursuant to Executive Order 12788 (as amended). The EAC is comprised of 22 Federal agencies to coordinate interagency and intergovernmental adjustment assistance and serve as a clearinghouse for the exchange of information between Federal Government, state, and community officials involved in the resolution of economic adjustment concerns resulting from DoD actions. To help facilitate this exchange of information, OEA has begun a major initiative this fiscal year to develop an information portal to support the mission of the EAC. By providing all stakeholders with a shared understanding of planned drawdowns, increases, and other vital information, the EAC will be able to best facilitate cooperation among federal, state, local and regional partners, in order to minimize confusion, delay, and sub-optimal progress.

In response to BRAC 2005, approximately \$300 million in Federal grants, loans, and technical assistance has been provided to date to assist state and local governments, businesses, and workers to date. Efforts under the auspices of the EAC are presently concentrated on worker assistance, education and transportation support for “growth” communities, public benefit property conveyance issues, and economic development assistance. For example, senior Defense and Education officials have already visited some growth locations to better understand the issues associated with changes in school age dependent student enrollment and to develop an understanding of responses necessary to assist local education efforts to adjust to these changes.

Managing Infrastructure

Along with continued improvement in business practices, the Department is focused on improving the quality of military installations as evidenced by the emphasis on more accurate Quality Ratings, which are currently being collected by the Military Departments. Managing DoD real property assets is an integral part of comprehensive asset management. The Department currently manages over 545,000 facilities on approximately 30 million acres of land.

The Department’s Real Property Asset Management plan, recently published in the form of the 2007 Defense Installations Strategic Plan, directly supports the President’s Management Agenda by identifying specific goals and objectives to improve the fidelity of inventory reporting and tracking the metrics designed to monitor improvement progress. This plan also focuses on improved asset management planning, inventory submission and performance measure data, and the disposal of unneeded assets. The Department’s progress in meeting these goals is monitored and reported quarterly through the President’s Management Agenda scorecard. As part of the Federal Real Property Council’s government-wide initiatives to

improve real property inventory reporting, the Department continues to provide inventory and performance data to the Federal Real Property Profile annually.

One of the primary tools contributing to the improvement of data integrity has been the implementation of DoD's Real Property Inventory Requirements document. This document refines the quality of data collected by improving the specificity of the data elements requested for submission and by standardizing the data elements collected among the Military Departments. Our annual data collection process is currently undergoing a significant upgrade with the development of a net-centric data warehouse that will soon directly interface with the Military Department's native real property inventories and eliminate the old painstaking manual data collection processes that had a high potential for unintended errors.

Facilities sustainment is a key element of our approach to maintaining our real property. Sustainment represents the funds for necessary maintenance and for the major repairs or replacement of facility components that are expected to be made periodically throughout the life cycle. Sustainment prevents deterioration, maintains safety, and preserves performance over the life of a facility. It has been and continues to be the top priority in the Department's facilities strategy. To forecast sustainment funding requirements, DoD developed the Facilities Sustainment Model several years ago using standard benchmarks for sustainment unit costs by facility type (such as cost per square foot of barracks) drawn from the private and public sector sources. The cost factors used to establish those benchmarks are updated on a regular basis. Our Department-wide, long-term goal continues to be full sustainment of our facilities to optimize our investment and ensure readiness. As a reflection of the importance of facilities sustainment to the overall health of our inventory, the Fiscal Year 2009 budget request reflects an increase in

the Department-wide sustainment funding rate from 88 percent in the Fiscal Year 2008 budget request to 90 percent, which equates to a \$796 million increase.

Sustainment and Recapitalization Request

(President's Budget in \$ Millions)

	Fiscal Year <u>2008</u> <u>Request</u>	Fiscal Year <u>2009</u> <u>Request</u>
Sustainment (O&M-like) *	6,686	7,482
Restoration and Modernization (O&M-like plus)*	1193	1,780
Restoration and Modernization (Military Construction)	5,908	8,102
TOTAL SRM	13,787	17,364

**Includes Operations and Maintenance (O&M) as well as related military personnel, host nation, and working capital funds and other appropriations such as Research, Development, Test and Evaluation (RDT&E)*

Another key element of our stewardship is recapitalization. Recapitalization includes restoration and modernization, using the resources necessary for improving facilities. It is the second element of the Department's facilities strategy. Recapitalization is funded primarily with either Operations and Maintenance or Military Construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes. Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years. Our DoD goal has been to achieve a recapitalization rate of 67 years, and the Fiscal Year 2009 budget request exceeds that goal by funding recapitalization at a rate of 56 years. This is an improvement over the rate of 76 years achieved in the Fiscal Year 2008 budget, and is due, in part, to the impact of BRAC and Global Basing. The Fiscal Year 2009 budget request increased by \$2.781 billion from the Fiscal Year 2008 budget request for recapitalization.

We are in the process of refining the way that we measure our investment in recapitalization, and will no longer be measuring a rate in years. The new method, which will be implemented in Fiscal Year 2010, will focus on the modernization of the inventory of existing facilities, and will be tailored to the actual inventory of facilities within each Military Department.

The Department remains committed to maintaining a rate of investment in facilities recapitalization that will improve, modernize, and restore existing facilities while at the same time replacing facilities in support of efforts to reshape and realign infrastructure. However, as the Department consolidates and reshapes its infrastructure, it will also experience localized growth in the size of the facilities footprint. This is necessary to provide the quality and quantity of facilities and assets necessary to support military personnel and their families. These efforts include facilities to support Army Transformation, Army and Marine Corps Grow-The-Force initiatives, and bed-down of new weapons systems, such as F-22 and the Joint Strike Fighter.

Elimination of excess and obsolete facilities in the inventory, an effort separate and distinct from the BRAC process, continues to be another key element of the Department's asset management plan. The Military Departments continue to maintain and execute robust disposal and demolition programs in order to reduce overall operating costs associated with facilities sustainment and installation support, improve the overall safety and aesthetics of our installations, and ensure that only essential infrastructure is retained in the inventory. In July 2007, the Military Services and selected Defense Agencies updated their disposal targets, and our goal now is to eliminate over 60 million square feet of facilities and additional excess infrastructure by the year 2013. But there is much more work to be done.

We are continuing our efforts to forecast our disposals more accurately, to capture that information in the real property inventory, and to assess the impact of disposals on the entire inventory of facilities more accurately. We are doing this by assessing the net result of a comparison of the value of infrastructure removed from the inventory with the value of infrastructure added to the inventory. This will contribute to a more accurate view of the level of recapitalization of our global inventory of facilities.

The Fiscal Year 2009 budget request includes \$7.72 billion for Facilities Operations, formerly referred to as “Real Property Services.” This program provides the municipal services on our installations, such as utilities, fire protection, custodial services, grounds maintenance, and other related functions. To forecast Facilities Operations requirements, DoD developed the Facilities Operations Model using commercial and public sector benchmarks to determine the funding requirements for the essential services at our installations.

We continue to make progress in defining common standards and levels of support for a variety of services provided on our installations. We are in the process of realigning the manner in which we track individual services so that we can more effectively determine the budget requirements for those services that are essential to the health, welfare, and quality of life of the service members, families and civilian employees who live and work on our installations. The processes that are being developed are included in our implementation of the BRAC 2005 Joint Basing recommendation. We have made considerable progress in that area and are on track to meet the statutory deadline for the establishment of joint bases. The initial implementation guidance for the joint bases was recently issued, and the specific details for implementing this BRAC recommendation and achieving its benefits are well underway.

The Military Construction appropriation is a significant source of facilities investment funding. The Fiscal Year 2009 Defense Military Construction and Family Housing Appropriation request totals \$24.4 billion, which is an increase of \$3.235 billion from the Fiscal Year 2008 budget request. This funding will enable the Department to respond to warfighter requirements rapidly, enhance mission readiness, and provide for its people. In addition to new construction needed to bed-down forces returning from overseas bases, this funding is used to restore and modernize enduring facilities, while eliminating those that are excess or obsolete. A large part of the increase in the Military Construction requirements (\$1.86 billion) supports the President's Grow-the-Force initiative, projects needed to support the realignment of forces, projects to improve and update facilities used by the Guard and Reserves forces, and facility projects needed to take care of our people and their families, such as family and bachelor housing, Wounded Warrior housing, and child development centers.

Comparison of Military Construction and Family Housing Requests

(President's Budget \$ in Millions – Budget Authority)

	FY 2008 Request	FY 2009 Request
Military Construction	9,480	11,283
NATO Security Investment Program	201	241
Base Realignment and Closure IV	220	393
Base Realignment and Closure 2005	8,174	9,065
Family Housing Construction/Improvements	1,080	1,457
Family Housing Operations & Maintenance	1,851	1,741
Chemical Demilitarization	86	134
Family Housing Improvement Fund	0.5	1
Energy Conservation Investment Program	70	80
Homeowners Assistance	-	5
TOTAL	21,165	24,400

In January 2006, the Department joined 16 other Federal agencies in signing a Memorandum of Understanding (MOU) for Federal Leadership in High Performance and Sustainable Buildings. The guiding principles of sustainable design defined in the MOU are to employ integrated design principles, optimize energy performance, protect and conserve water, enhance indoor environmental quality, and reduce environmental impact of materials. The Department is committed to incorporate sustainable design principles through a comprehensive approach to infrastructure management. We are pursuing Leadership in Energy and Environmental Design (LEED) Silver as a goal for nearly 70 percent of the Fiscal Year 2009 Military Construction Program. In addition, the Department is working to assess and address existing facilities' sustainable practices.

Improving Quality of Life

Access to quality, affordable housing is a key quality-of-life factor affecting service member recruitment, retention, morale, and readiness. Through privatization and increases in housing allowances, DoD has made great strides in increasing service members housing choices. Privatization allows for rapid demolition, replacement, or renovation of inadequate units and for the sale without replacement of inadequate units no longer needed. Privatization enables DoD to make use of a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

To date, the military Services have leveraged DoD housing dollars by 12 to 1, with \$2 billion in federal investments generating \$24 billion in housing development at privatized installations. The Fiscal Year (FY) 2009 budget request includes \$3.2 billion, an increase of \$300 million above the FY 2008 enacted level, which will construct new family housing to accommodate Grow the Force, improve existing housing, eliminate inadequate housing overseas,

operate and maintain government-owned housing, and fund the privatization of 12,324 additional homes.

The housing privatization program was created to address the oftentimes poor condition of DoD-owned housing and the shortage of affordable private housing of adequate quality for military service members and their families. Privatization allows the military services to partner with the private sector to generate housing built to market standards for less money and frequently better quality than through the military construction process. Additionally, and almost of greater importance, the projects include 50 years of maintenance and replacement where necessary. Although nearly all projects have been awarded, we are still in the early stages of the program since the housing will be privately owned for fifty years. With privatization deal structures and an income stream in place, full revitalization will be completed within a ten-year development period.

As of the end of 2007 through the privatization program, and some military construction projects, we have privatized over 80 percent of the domestic inventory. Additionally, DoD has eliminated 92 percent of inadequate family housing units in the Continental United States and territories (CONUS) including all inadequate units for the Army, Navy, and Marine Corps. While there are some remaining inadequate Air Force units, these are being addressed in Fiscal Year 2008. Inadequate units are considered to be eliminated when they are conveyed to the private owner, who then revitalizes the housing.

Tenant satisfaction is high, particularly for revitalized and newly constructed housing. Given DoD's objective of improving quality of life for its service members, the degree of satisfaction service personnel experience in privatized housing units is a critical indicator of overall program success. Since DoD provides military families with Basic Allowance for

Housing (BAH) at privatized bases, a military family's decision to live in privatized housing is a significant measure of satisfaction. The occupancy rate of nearly 90 percent program-wide demonstrates the overall success of the program in providing suitable housing.

A number of installations face changes and challenges as military family housing requirements expand and contract due to Base Realignment and Closure (BRAC) restructuring, global re-posturing, joint basing, or Grow the Force requirements. While some installations may find they have a surplus of housing as a result of these changes, others may experience a deficit. However, even as needs for military family housing may change, ensuring that our service members and their families have access to safe, desirable, and affordable housing will remain constant. The Services continue to evaluate installation housing requirements and the opportunities to meet additional housing needs through privatization continue to expand.

Under the Military Housing Privatization Initiative (MHPI), private sector developers and lenders develop, maintain, and operate the privatized housing and resolve issues when they arise. Market forces drive contractor performance and the primary enforcement mechanism is the ability of the military members to choose where to live. If a housing project is not meeting performance expectations, lenders have the option, with the approval of the Department, to replace the owner with a more viable entity. One developer, American Eagle, currently owns five projects and is experiencing financial difficulties. American Eagle was the general partner or owner of six MHPI projects, including one Navy project, one Army project, and four Air Force projects. The company sold its Navy project in late 2007 and is in the process of selling its remaining five projects. The Army project, at Fort Leonard Wood, Missouri, is stable and in the process of being sold to another developer. American Eagle continues to fund maintenance of the existing inventory of homes for the four Air Force projects. The Air Force is maintaining

constant dialogue with the projects' owner and bondholders while American Eagle pursues the transfer to another developer. The Department recently conducted an assessment of the overall financial condition of DoD housing privatization owners. This assessment shows that with the 87 awarded MHPI projects involving over 173,000 units, the likelihood of developers experiencing financial stress is low across the board.

The FY 2009 budget request includes funding to eliminate inadequate family housing outside the United States. The budget request reflects a military construction cost of \$125 million for the Army to construct 216 family housing units in Korea as an alternative to the build-to-lease effort.

The Department is also committed to improving housing for our unaccompanied Service members. DoD continues to encourage the modernization of Unaccompanied Personnel Housing (UPH) to improve privacy and provide greater amenities. In December 2007, the Navy executed its second Unaccompanied Housing privatization pilot project. The Hampton Roads, Virginia, unaccompanied housing project will construct 1,187 new apartment units and privatizes 726 existing unaccompanied housing units at Naval Station Norfolk. Navy pilot projects, enabled by use of partial allowance, have successfully improved the quality of life of unaccompanied personnel. The Department is now considering future uses of this methodology.

In FY 2007, the Army added bachelor officer quarters and senior enlisted bachelor quarters to its existing privatization projects at Fort Bragg, North Carolina; Fort Stewart, Georgia; Fort Drum, New York; Fort Bliss, Texas/White Sands Missile Range, New Mexico, and Fort Irwin, California. In FY 2008, the Army will complete and begin implementing a Lodging Development Management Plan covering the 13 installations that are part of the Privatization of Army Lodging program Group A.

Energy Management

The Department continues to aggressively implement energy conservation measures and avoid associated costs while improving utility system reliability and safety. To that end, the Department developed comprehensive policy guidance incorporating the provisions and goals of Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management* which the President signed on January 24, 2007. This policy guidance will continue to optimize utility management by conserving energy and water usage, and improving energy flexibility by taking advantage of restructured energy commodity markets when opportunities present themselves. Requirements of the recently passed Energy Independence and Security Act of 2007 will be incorporated as Federal guidance is developed. The Department is in the process of developing implementation guidance.

The Department's efforts to conserve energy are paying off. DoD is the largest single energy consumer in the Nation and consumed \$3.4 billion in facility energy in FY 2007, a modest but significant savings of \$80 million from Fiscal Year 2006. DoD facility energy consumption intensity is down more than 10 percent from the 2003 baseline, and non-tactical vehicle petroleum consumption has dropped 5.4 percent since Fiscal Year 2005. Our program includes investments in cost-effective renewable energy sources or energy efficient construction designs and aggregating bargaining power among regions and the Services to achieve more effective buying power.

DoD has significantly increased its focus on purchasing renewable energy and developing resources on military installations. Renewable energy projects are consistently more expensive than similar conventional energy sources, resulting in limited opportunities that are life cycle cost effective, so innovative strategies have been employed, such as the power

purchase agreement resulting in 14 megawatts of solar electrical production at Nellis Air Force Base, Nevada. The Department has increased the use of Energy Conservation Investment Program (ECIP) funds for renewable energy projects from \$5 million in Fiscal Year 2003 to \$28.2 million planned in Fiscal Year 2008, and plans call for ECIP to increase \$10 million per year, up to \$120 million in FY 2013, and renewable energy projects will continue to be a high priority. The Department exceeded the Energy Policy Act (EPAcT) 2005 renewable energy goal of 2.5 percent in Fiscal Year 2007, reaching 5.5 percent of facilities electrical consumption under the Department of Energy accounting guidelines. In 2005, DoD set a goal to reach 25 percent renewable energy procured or produced by Fiscal Year 2025 and Congress placed this goal in the National Defense Authorization Act 2007. I am pleased to say that the Department reached 11.9 percent renewable energy procured and produced for Fiscal Year 2007, placing it well on track to achieve the goal. While EPAcT 2005 did not articulate a specific water reduction goal, Executive Order 13423 includes a goal of a 2 percent water reduction per year. The Department began tracking water consumption in Fiscal Year 2002. By Fiscal Year 2007, DoD has reduced water consumption intensity by an impressive 25 percent and total water consumption by 27 percent or 43.8 million gallons per year. While we will continue to strive to exceed the requirements, our prior achievement has served to set the baseline low, so continuing the trend will be a challenge.

Environmental Management

The Department continues to demonstrate leadership in protecting and conserving the natural resources on the approximately 30 million acres entrusted to it. Through our environmental management programs we are integrating environmental sustainability into all aspects of the day-to-day operations of the Department, helping us to achieve our goals for pollution prevention, cleanup, and conservation. Over the last ten years, the Department has

invested almost \$42 billion to ensure the success of our environmental programs, and the fiscal year 2009 budget request of \$4.3 billion will sustain our environmental progress in support of the warfighter.

Executive Order 13423, “*Strengthening Federal Environmental, Energy, and Transportation Management*”, directed federal agencies to “lead by example in advancing our nation’s energy security and environmental performance.” Since signature of the Executive Order last January, the Department has established an Executive Steering Committee of senior officials from across the Department to develop the long-term strategic goals necessary to implement this order. These goals and supporting policies will integrate and strengthen our existing environmental, energy, and transportation programs to improve our management of toxic and hazardous chemicals, further enhance management of our natural resources, encourage sustainable development, and improve the management of energy use.

Our ability to link the natural and built infrastructure with national security and readiness enables the Department to integrate environmental sustainability into all aspects of military operations – from design to disposal. Our Natural Infrastructure Management (NIM) initiative provides a framework for identifying and managing the Department’s natural assets - air, land and water – together with operational or mission requirements, so that the Department can predict current and future natural infrastructure needs and investment needed to sustain those assets. The Department piloted a NIM prototype at representative installations in 2005 and 2006, and is now developing policy and guidance to ensure that natural infrastructure assets are recognized and leveraged effectively to support current and future mission capability.

The Department uses Integrated Natural Resource Management Plans (INRMPs), critical habitat designations have been avoided at 35 installations. That, coupled with our conservation

efforts to protect species at risk and common species before they become rare, provides the Department more flexibility in its mission activities.

The Department conducts environmental cleanup or restoration in cooperation with federal and state agencies due to past use of hazardous substances, pollutants, contaminants, and military munitions on areas of active and former installations. The Department prioritizes resources for Installation Restoration Program (IRP) sites to address past releases of hazardous substances, pollutants, and contaminants, and Military Munitions Response Program (MMRP) sites to address hazards associated with unexploded ordnance and discarded military munitions on a “worst first” basis. By the end of fiscal year 2007, the Department had completed cleanup at 69 percent or 21,600 of the 31,500 IRP and MMRP sites. For IRP, the Department achieved a remedy in place (RIP) or response complete (RC) at 89 percent of active installation sites, 68 percent of sites at Formerly Used Defense Sites (FUDS), and 85 percent of sites on installations closed or realigned in the first four rounds of BRAC and BRAC 2005. For MMRP, the Department has fulfilled its cleanup obligations at over 53 percent of BRAC installation sites, and 24 percent of the sites at FUDS, with the remaining MMRP, as well as IRP, sites either undergoing cleanup actions or investigations.

Employing a strategy that goes beyond mere compliance with environmental laws and regulations, the Department is transforming our business practices by integrating environment into our acquisition process, maintaining a high level of environmental quality in defense activities, and preventing pollution at its source. From Fiscal Year 2000 through 2007 there was a 23 percent reduction in the number of new Federal and state enforcement actions received despite an eight percent increase in the number of regulatory inspections. For January through June 2007, the latest information available, installations achieved a 95 percent compliance rate

with wastewater treatment permits, and 98 percent of the 3.6 million customers served by DoD drinking water systems received drinking water that met or exceeded Safe Drinking Water Act standards, which compares favorably with the Environmental Protection Agency's goal of 95 percent. Using an integrated approach that enhances waste reduction and optimizes solid waste reduction, in 2007 the Department diverted almost 3.5 million tons or 60 percent of our solid waste from landfills avoiding approximately \$180 million in landfill costs, and reducing hazardous waste disposal by 20 percent compared to 1999. The Department is also effectively managing air quality, reducing hazardous air pollutant emissions at our installations by 728 tons in 2006. To further reduce waste and resource consumption, in 2004 the Department established a Green Procurement Program (GPP), which encourages Components to buy recycled, recovered, and bio-based products whenever feasible. Through the GPP, the Department has become the leader in green procurement, and we continue to make further improvements to GPP, most recently issuing policy direction in December 2007 requiring DoD contracting officers to use a contract provision giving preference to biobased products. Through GPP and all other environmental programs we will ensure a more secure and sustainable future for the environment and our Armed Forces.

Emerging Contaminants

Our experiences with the mission and environmental consequences associated with perchlorate, ozone depleting substances, and other chemicals with evolving regulatory standards indicate a need to establish a proactive program to make earlier, better-informed, enterprise-wide risk management decisions regarding these emerging contaminants (EC). This new program is already helping us better protect human health and the environment, and enhance military readiness. Simply put, the EC program identifies risks early in the process, before regulatory

actions take place or materials become unavailable, thus protecting our people, assets, and mission.

Within the EC program we have established a three-tiered process to (1) identify and inform DoD decision-makers early, (2) assess the impacts of evolving science and the potential risks to human health and DoD's mission implied by that science, and (3) develop appropriate risk management options for DoD program managers. Twenty EC impact assessments have been completed in the past 18 months for chemicals that include explosives, fuel constituents, corrosion preventatives, fire-fighting foams, and industrial degreasers. Examples of risk management options resulting from these assessments include conducting research to fill basic science gaps, improving material handling and personal protection practices, developing new or improved remediation technologies, and developing less toxic substitute materials or processes. One of the major thrusts of the program is to work closely with the DoD industrial base to conduct life-cycle analyses regarding less toxic alternative chemicals for use in weapons platforms, systems and equipment.

Because of the many national policy issues related to ECs, we are working with a variety of external stakeholders, including a number of Federal and state regulatory agencies, industry, academia, and professional organizations. As an example, we formed an EC working group with the Environmental Protection Agency and the Environmental Council of States. That working group has four consensus work products aimed at resolving issues and clarifying policies and practices involving ECs - all in various stages of completion.

Our experience with Perchlorate is particularly instructive. Perchlorate has been used by DoD since the 1940s as an oxidizer in explosives, pyrotechnics, rocket fuel, and missiles. Its high ignition temperature, controllable burn rate, and stable chemical characteristics reduce

handling and storage risks and the likelihood of unexpected detonations which makes it among the safest and least expensive explosive we use. DoD was quickly blamed for perchlorate found in drinking water supplies in over 34 states.

DoD has acted responsibly as the science and understanding of perchlorate has evolved – including sampling, cleanup activities, and \$114 million in research focused on perchlorate treatment technologies, substitutions, and analytical techniques. To ascertain our responsibility for perchlorate releases and public exposure, DoD issued clear policy in 2006 requiring sampling and compliance with applicable Federal and state standards. The latest round of DoD-wide sampling data shows that we are taking appropriate response actions and that DoD installations, overall, do not appear to be a significant source of perchlorate contamination in the nation's drinking water. In California, where perchlorate has been a particular concern, our joint review with the State has found that of the 924 current and formerly used Defense sites, 99 percent do not appear to pose a current threat to drinking water. The remaining 1 percent has some confirmation sampling underway or the assessments are still being reviewed by Californian regulatory agencies.

DoD also demonstrated that the sources of widespread, low levels of perchlorate exposure are complex. For example, we now know that annual imports of perchlorate in fireworks alone exceed the amount of perchlorate annually purchased by DoD. Road flares may also be a significant source of groundwater contamination. Other DoD investments are paying dividends -- we have found suitable substitutes for a number of military pyrotechnics and research for other applications is on-going. DoD can now differentiate natural from manmade sources of perchlorate and is working on refining this technique to distinguish the different manmade sources to ensure that DoD only pays for clean up for which it is responsible.

Sustaining the Warfighter

Our Nation's warfighters require the best training and the best equipment available. This means sustaining our vital range and installation infrastructure where we test equipment and conduct training. Incompatible land use in the vicinity of DoD installations and ranges continues to challenge sustainability. The unintended consequences of this encroachment upon our ranges and installations are varied and include such challenges as more noise complaints from new neighbors, complaints about smoke and dust, diminished usable airspace due to new structures or increased civil aviation, a loss of habitat for endangered species, and a compromised ability to test and train with the frequency needed in time of war.

History and experience gained over decades demonstrate that realistic and proper training of U.S. troops will result in victory. Assured access to operational ranges is the only way to continue that training. In 2001 the Department undertook the Readiness and Range Preservation Initiative to achieve a balance between national defense and environmental policies. As a result, DoD is successfully balancing environmental statutory and regulatory requirements with our national defense mission requirements.

In 2002, the Congress provided statutory authority to use Operations and Maintenance (O&M) funds to create buffers around our ranges and installations. Using this authority the Department established the Readiness and Environmental Protection Initiative, or REPI, and has worked with willing partners to cost-share land conservation solutions that benefit military readiness and preserve natural habitat. In FY 2005, REPI leveraged \$12.5 million of O&M funding to secure \$58 million worth of buffer land and easements, encompassing 14,688 acres at seven installations. In FY 2006, REPI leveraged \$37 million of O&M funding to secure \$71 million worth of buffer land and easements, encompassing 18,833 acres. The FY 2006 acreage

will increase pending the completion of some unfinished projects. The 2007 and 2008 projects will continue to leverage REPI funds against partner contributions. REPI and partner funding has allowed DoD to protect the Navy's one-of-a-kind La Posta Mountain Warfare Training Facility in California; to keep training areas open at Marine Corps Base Camp Lejeune, North Carolina; and buffer live-fire training ranges at Fort Carson, Colorado; just to name a few projects. Overall in FY 2007, REPI initiated 26 projects in 17 states, and for FY 2008 an additional 46 projects have been identified for funding. For FY 2008 the Congress appropriated \$46 million for REPI. The President's Budget request for FY 2009 for REPI is \$40 million.

After several years of implementing REPI projects, the Department of Defense asked the RAND Corporation to assess the program's effectiveness. In 2007, RAND issued its report, titled *The Thin Green Line: An Assessment of DoD's Readiness and Environmental Protection Initiative to Buffer Installation Encroachment*. The report found that REPI projects were beneficial to the military, to the environment, and they improved the quality of life in communities where the projects were located. REPI projects are providing land buffers around military installations and ranges, and have been proven effective in relieving military training and testing activities from encroachment pressures.

The RAND report shows that REPI projects have had a wide range of environmental benefits; including helping to preserve habitat, biodiversity and threatened and endangered species; protecting wildlife corridors; and helping with water quality and supply concerns. REPI's benefits not only help buffer military activities and enhance Department of Defense environmental programs; they also improve the military installation's reputation with surrounding communities. For example, according to the RAND report, REPI has also affected the quality of life around Fort Carson by protecting large open spaces. Similarly, REPI projects

such as the ones near Naval Air Station Fallon in Nevada can also help preserve the local agricultural way of life.

Many of the issues that concern the Department of Defense are also of mutual concern to other Federal agencies and State governments. These issues cross administrative boundaries and occur at the regional scale. The Department of Defense is working in partnership at the regional level with State governments and Federal agencies to facilitate dialogue and to address issues of mutual concern. These partnerships are proving essential to sustaining our ranges and installations. For example, the Department of Defense continues to work with state governments and other Federal agencies in the Southeast Regional Partnership for Planning and Sustainability – or SERPPAS. The states of Alabama, Florida, Georgia, North Carolina, and South Carolina are engaged with the Department of Defense and other Federal agencies in this important regional scale initiative. Through the SERPPAS process, the partners are promoting better planning related to growth, the preservation of open space, and the protection of the region’s military installations.

In 2007, DoD continued to work closely with other Federal agencies to sustain military readiness. On energy issues, the Department of Defense continues to work with other Federal agencies to ensure that wind farm projects and energy transmission corridors are compatible with military readiness activities. The Department also continues to work with the Department of Homeland Security to ensure that our military readiness activities and infrastructure in border regions are not impacted by new security measures. Outreach to non-Federal and non-governmental organizations continues to be a significant part of the Department’s sustainability program, and today we are working with state, county, and local governments, Tribal, and environmental groups on issues of mutual concern to seek win-win solutions. Overseas, DoD

continues to develop mission sustainment procedures to work with our host nations Global Defense Posture partners. To sustain today's warfighters, and our nation's future warfighters, the Department of Defense will continue its engagement and partnering efforts.

Safety and Health Risk Management

A significant responsibility of Installations and Environment is oversight of occupational safety and health. Secretary Gates has challenged us to reduce preventable accidents and this has driven real improvements. Over the last year, the Department experienced an overall improvement in its safety and health performance.

For civilian employees, we are meeting the President's goals in the Safety, Health and Return-to-Employment (SHARE) initiative by decreasing our lost time injury rate by 5 percent. We plan to continue to improve by increasing the number of installations participating in OSHA's Voluntary Protection Program. This program engages every person –commanders, middle managers, employees, and military members – in changing attitudes toward accident prevention.

For motor vehicle safety, motor vehicle crashes – both in military operations and on U.S. highways – continue to be the number one cause of military fatalities outside of direct combat. We continue to work with tactical vehicle developers to provide safer vehicles for combat operations, and work with the Services and Combatant Commands to improve operating doctrine for using the vehicles in a manner that minimizes crashes. The greatest risk to our soldiers returning from Iraq is being the victim of a crash on U.S. highways. The Military Services recognize this challenge, and have aggressive programs to reorient soldiers back to safe driving habits in the U.S. While our highway crash experiences are very similar to the general public,

we still work to prevent each of these losses. Every fatality still means that one of our Nation's sons or daughters has been needlessly lost.

For aviation safety, we have made long-term progress in reducing aviation accidents, reducing the overall rate of Class A accidents by 20 percent since FY 2002. The Military Services continue to improve aircraft technology to provide our pilots with more capable and safer aircraft, and to improve training and information needed for improved pilot performance. Strategic improvements in aviation safety will be supported through our partnership on the Next Generation Air Transport System (NextGen) Joint Planning and Development Office.

Future improvements in DoD Safety and Health performance will be guided by our principles of applying management systems for continuous improvement, and engaging all of the risk decision makers in improve awareness and attitudes toward reducing risk.

Integrating Business Enterprises

We have made significant and tangible progress implementing the core capabilities of the Real Property Accountability (RPA) business enterprise priority. This effort spans all Components, applying best business practices and modern asset management techniques to provide the warfighter access to secure, reliable information on real property assets and environment, safety, and occupational health sustainability. RPA is one of the six overall DoD business enterprise priorities articulated in the DoD Enterprise Transition Plan, which is the Department's roadmap for the improvement of critical business operations. As DUSD(I&E), I am the lead in the Department for ensuring that RPA stays on schedule.

RPA is aligning end-to-end business processes and enhancing management visibility into operations by establishing and integrating common processes and data standards, redefining

defense business in terms of functions managed and customers served rather than who performs the task.

RPA correlates directly to the Under Secretary of Defense (Acquisition, Technology, and Logistics) goal of “Capable, Efficient, and Cost Effective Installations” and will help us to improve installation planning and operations by embracing best business practices and modern asset management techniques. The RPA initiatives have already improved awareness of the importance of accurate inventories, optimized resources, and enhanced access to real property information.

The groundwork for RPA is nearly complete. Over the past few years, the Department has developed enterprise-wide capabilities for real property accountability and visibility, environmental liabilities accountability and valuation, and hazardous materials operational controls. These capabilities are founded on requirements for a common business process model, standard data elements and data definitions, business rules, and recommendations for policy changes. The Components are fine-tuning and implementing plans to fully integrate these requirements into their operating environments.

Another key accomplishment in this area was the establishment of the Real Property Unique Identifier Registry which reached full operational capability for assigning real property unique asset identifiers in December 2007. An initial step forward into a federated location construct, the registry will provide authoritative physical location information for DoD real property to communities outside of the real property and installations management core business mission. Other successes over the past year include:

- Assignment of unique identifiers to all DoD’s real property assets to provide more granular physical location data for DoD’s legal interests in all user communities. Current accurate

location information provides enhanced access to essential data for strategic decisions, increasing accountability, and reducing costs.

- Incorporation of fundamental geospatial standards in the Business Enterprise Architecture, the Department's business information infrastructure. Utilization of these standards provide a common set of mapping information and tools which enhance geospatial visualization capabilities while avoiding redundant acquisition of geospatial resources across the Department.
- Real property inventory tools and procedures have been developed, and we have made progress towards implementing and maintaining consistent, accurate, and complete information on the real property portfolio across the Department.
- Initial operating capability for the Hazardous Material Master Data Capability, a year ahead of schedule, which placed the chemical and regulatory data essential for safe and effective handling of hazardous materials in a production environment. In partnership with the Defense Logistics Agency, we will improve the availability of accurate, authoritative hazard data while eliminating redundant data purchases, entry, and maintenance burden across the Department.

Over the past few years, the Department has developed enterprise wide capabilities for real property accountability and visibility, environmental liabilities accountability and valuation, and hazardous materials operational controls. Accurate and timely data is fundamental to effective management of assets, and ultimately to military success.

Conclusion

In closing, Mr. Chairman, I sincerely thank you for this opportunity to highlight the Department's successes and outline its plans for the future. To meet the ever changing

warfighting landscape our military must be flexible and responsive and our installations must adapt, reconfigured, and be managed to maximize that flexibility and responsiveness. I appreciate your continued support and I look forward to working with you as we transform these plans into actions.