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JOINT STATEMENT OF
ADMIRAL VERN CLARK, CHIEF OF NAVAL OPERATIONS,
GENERAL MICHAEL HAGEE, COMMANDANT OF THE MARINE CORPS,
AND
HONORABLE B. J. PENN, ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
BEFORE THE
SUBCOMMITTEE ON MILITARY QUALITY OF LIFE AND VETERANS AFFAIRS
OF THE
HOUSE APPROPRIATIONS COMMITTEE

9 MARCH 2005

Mister Chairman and members of the Committee, we are pleased to appear before you today. Consistent with the charter for this new subcommittee, we will provide an overview of the Navy and Marine Corps team's shore infrastructure, environmental restoration, and Basic Allowance for Housing (BAH).

FY-06 BUDGET OVERVIEW

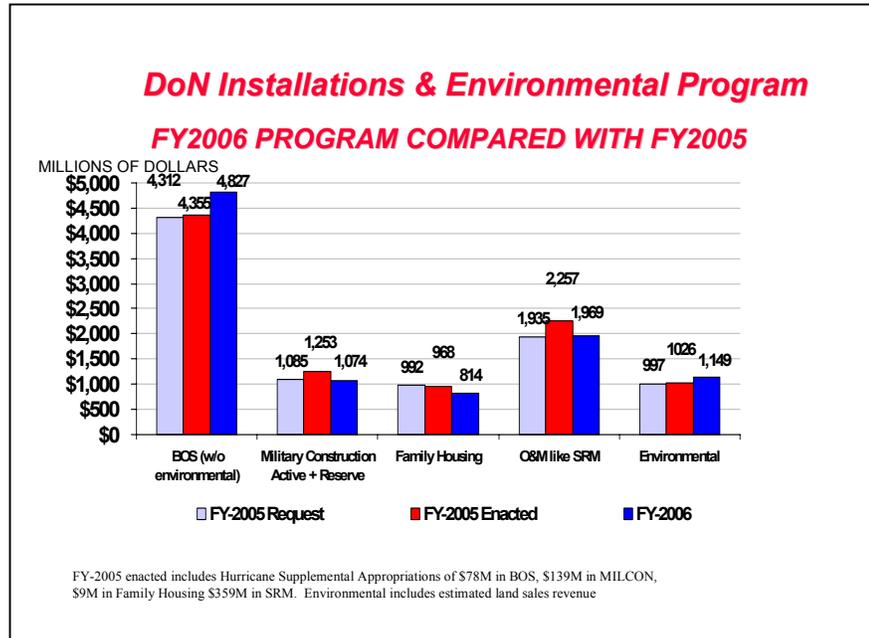
Our bases and stations provide the essential services and functions that help us train and maintain our Naval forces, and enhance the quality of life for our Sailors, Marines and their families. Winning the Global War on Terrorism (GWOT) is our number one priority while we transform our force structure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

The DoN FY-06 budget request for installations and environmental programs totals \$9.8 billion¹ and provides the funds to operate, recapitalize and transform our shore installations.

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

The Base Operations Support (BOS) request of \$4.8 billion, excluding environmental which is shown

separately, provides fundamental services such as utilities, fire and security, air operations, port operations, and custodial care that enable the daily operations of



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

our bases. The increase of \$471 million to the FY-2005 enacted level is primarily due to functional transfers to properly align Navy Marine Corps Internet with Base Operating Support and program growth to accomplish utilities privatization preparation, improve overseas Morale, Welfare and Recreation Programs supporting our forward deployed forces, and to restore funding required to execute shore mission support without degrading quantity or quality of support. We believe we have properly priced BOS to avoid execution year adjustments as we have experienced in the past. We are also working with the Office of the Secretary of Defense and the other Components to define common standards and performance metrics for managing installations support.

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

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

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

Our **environmental program** of \$1,149 million, comprised of a variety of operating and investment appropriations, climbs \$123 million above the FY-2005 enacted level. Within this broad category, compliance accounts decline as a result of fewer one-time projects; conservation and pollution prevention funds remain steady; research and technology development decline by \$15 million as FY-2005 congressional increases are not continued in FY-2006; cleanup of active bases increases by \$39 million, primarily to support cleanup of the former Vieques training range in Puerto Rico. Of particular interest to this Subcommittee, we have included \$143 million in FY-2006 appropriations to cover minimum required environmental cleanup and caretaker costs. In preparing the budget, we also included \$133 million in estimated land sales revenue that would be used to accelerate cleanup efforts.

BAH

The DoN continues to fund BAH at a level that fully eliminates average out-of-pocket expenses for our service members. Each year, data are collected from approximately 400 Military Housing Areas (MHAs) in the United States, including Alaska and Hawaii. Input from local commands is used to determine what neighborhood tract data is collected and to direct the data collection effort towards adequate apartment complexes and individual housing units. Runzheimer International, a recognized expert in the field of housing market analysis, working closely with the Department of Defense (DoD), validates this information to achieve an object housing cost in each area that will provide our Sailors and Marines an allowance they can use to obtain the quality housing they deserve.

Although Runzheimer's analysis of data submissions for the 2006 BAH rate setting period will not begin until late Spring, based on an anticipatory increases in national housing costs, our FY-2006 BAH funding request is \$5.0 billion – \$249 million above the FY-2005 enacted levels. The continual improvement in housing allowances represent our commitment to preserve the compensation and benefit structure that will provided Sailors, Marines, and their families with a suitable and secure standard of living, that will sustain a trained, experienced, and ready force in the future.

Here are some of the highlights of these programs.

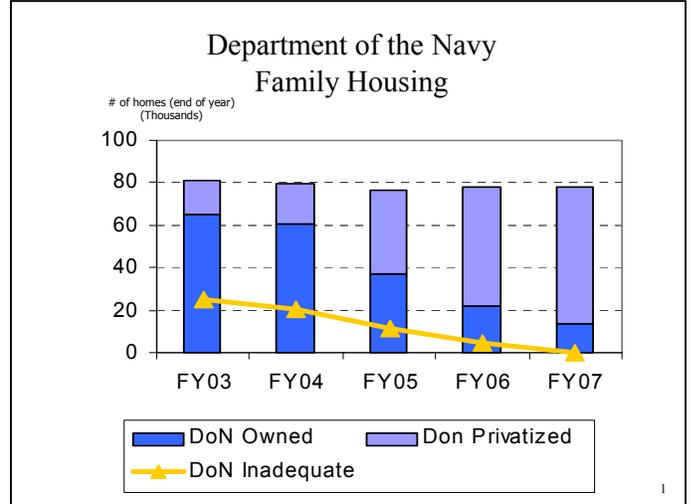
HOUSING

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

Family Housing

Our family housing strategy consists of a prioritized triad:

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



We will be able to eliminate 77% of our inadequate inventory through the use of public/private ventures. As of 1 March, we have awarded 15 projects totaling over 26,000 units. As a result of these projects, almost 17,500 homes will be replaced or renovated. An additional 2,700 homes will be constructed for Navy and Marine Corps families. Through the use of these authorities we have secured almost \$3.0 billion in private sector investment from \$300 million of DoN funds for these 15 projects. This represents a leverage ratio of ten to one. During FY-2005 and 2006, we plan to award projects totaling 29,000 homes at ten Navy and Marine Corps locations. This will allow us to improve our

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

housing stock and provide more homes to Sailors, Marines and their families much faster than if we relied solely on traditional military construction. By the end of FY-2007, the Navy and Marine Corps will have privatized 78 percent and 95 percent, respectively, of their worldwide housing stock.

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

Bachelor Housing

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

1. Provide Homes Ashore for our Shipboard Sailors. There are approximately 18,400 junior enlisted unaccompanied Sailors worldwide who live aboard ship even while in homeport. The Navy has programmed funding through FY-2008 to achieve its "homeport ashore" initiative by providing ashore living accommodations for these Sailors. We will achieve this goal through a mix of military construction, privatization authorities, and, for the interim, more intensive use of our barracks capacity by housing two members per room. Our FY-2006 budget includes three "homeport ashore" projects: \$7.8 million at Naval Station Mayport, FL (216 spaces); \$50 million at Naval Station, Everett, WA (818 spaces); and \$13.7 million at Naval Amphibious Base Coronado, CA (800 spaces), which is planned for privatization. The funds would be used as a Government cash contribution to a public/private entity.
2. Ensure our Barracks Meet Today's Standards for Privacy. We are building new and modernizing existing barracks to increase privacy for our single Sailors and Marines. The Navy uses the "1+1" standard for permanent party barracks. Under this standard, each single junior Sailor has his or her own sleeping area and shares a bathroom and common area with another member. To promote unit cohesion and team building, the Marine Corps was granted a waiver to adopt a "2+0" configuration where two junior Marines share a room with a bath. The Navy will achieve these barracks construction standards by FY-2016; the Marine Corps by FY-2012. We are pursuing a waiver of the "1 + 1" standard to allow us to build an enlisted barracks project in Norfolk to private sector standards. We believe this will reduce construction costs, improve amenities, and facilitate opportunities to privatize barracks in the future.

3. Eliminate gang heads. The Navy and Marine Corps remain on track to eliminate inadequate barracks with gang heads² for permanent party personnel. The Navy achieves this goal by FY-2007, the Marines by FY-2005.

BQ Privatization

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

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

MILITARY CONSTRUCTION

Military Construction Projects

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

The active Navy program consists of:

- \$218 million for eight Chief of Naval Operations projects for Homeport Ashore, Great Lake Recruit Training Command recapitalization and the Naval Academy.
- \$215 million for seven waterfront and airfield projects.
- \$92 million for three special weapons protection projects.
- \$239 million for 12 projects supporting new weapons systems such as F/A 18 E/F, V-22, H60R/S, and VXX.

² Gang heads remain acceptable for recruits and trainees.

- \$58 million for four mission enhancement projects such as the Pacific War fighting Center at Naval Station Pearl Harbor, HI; and
- \$9 million for one environmental compliance project at Naval Air Station Pensacola, FL.

The active Marine Corps program consists of:

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

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

Fourteen Navy and two Marine Corps³ projects have construction schedules exceeding one year and cost more than \$50 million, thus meeting the DoD criteria for incremental funding in the FY-2006 budget. Seven Navy and one Marine Corps projects received full authorization in FY-2004 or FY-2005 and are being continued or completed in FY-2006. The budget request new authorization to start seven Navy and two Marine Corps incrementally funded projects in FY-2006.

Outlying Landing Field, Washington County, North Carolina

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

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

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

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

VXX

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

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

The Navy also awarded a construction contract in January 2005 to build an eight-bay test and evaluation hanger with laboratory, maintenance, and office space for a combined Lockheed Martin - Navy program management team at Naval Air Station Patuxent River, MD. The Navy commissioned an independent study to consider alternate methods of providing in-service support for the

aircraft. The study concluded that a government owned contractor operated facility at Patuxent River provided significant life cycle cost savings to the Navy. The \$96 million, incrementally funded design/build facility will also include an in-service support capacity for the aircraft once operational. The current working estimate for construction is \$10 million below the authorization request in the FY-2005 budget.

FACILITIES

Facilities Sustainment, Restoration and Modernization (SRM)

Sustainment -- The DoD uses models to calculate life cycle facility maintenance and repair costs. These models use industry-wide standard costs for various types of buildings and geographic areas and are updated annually. Sustainment funds in the Operation and Maintenance accounts maintain shore facilities and infrastructure in good working order and avoid premature degradation. The Navy and Marine Corps achieve 95 percent funding of the sustainment model requirements in FY-2005 and FY-2006, consistent with the DoD goal. The DoN funding increases by 1.4% from FY-2005 to FY-2006.

Recapitalization -- Restoration and modernization provides for the major recapitalization of our facilities using Military Construction, Operation and Maintenance, Navy Working Capital Fund, and Military Personnel Navy funds. The “recap” metric is calculated by dividing the plant replacement value by the annual

SRM			
Navy			
	FY-04	FY-05	FY-06
Sustainment (%)	75%	95%	95%
Recap Rate (years)	103	104	98
Marine Corps			
	FY-04	FY-05	FY-06
Sustainment (%)	96%	95%	95%
Recap Rate (years)	109	82	103

investment of funds and it is expressed as numbers of years. The DoD goal is to attain an annual 67-year rate by FY-2008. Neither the Navy nor the Marine Corps attains the 67-year goal in the current FYDP due to affordability.

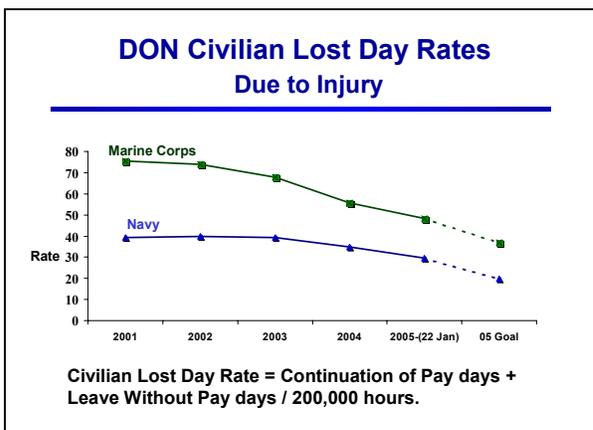
The FY-2006 recapitalization rate has improved substantially from that reported last year as a result of a recent DoD policy change that allows the military departments to take credit for centrally managed Service demolition programs. The Navy has \$51 million and the Marine Corps \$5 million for their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

EFFICIENCIES

Naval Safety

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

The Secretary of the Navy has embraced improving safety as one of his top objectives for this fiscal year. Last year Secretary England convened the first



semi-annual Navy and Marine Corps Safety Council, comprised of Senior Flag and General Officers, to review ongoing mishap reduction efforts. The DoN is pursuing Occupational Safety and Health Administration OSHA (OSHA) Voluntary Protection Program (VPP) status at our shipyards and other industrial activities; over the last 16 months, we have achieved an average 31 percent reduction in

civilian lost workdays due to injuries at our three installations with the highest injury rates. Increased command emphasis for safety in Operation Iraqi Freedom has played a major role in reducing the percentage of Marine Corps non-combat fatalities to combat fatalities from 42% in FY-2003 to less than 9% in FY-2004.

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

Commander, Navy Installations

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

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

Port Operations Capability Levels			
Capability Level 1	Capability Level 2	Capability Level 3	Capability Level 4
Spill Response w/in 15 minutes	Spill Response w/in 30 minutes	Spill Response w/in 1 hour	Spill Response > 1 hour
Berthing & Hotel Services Full Service 24/7	Berthing & Hotel Services Full Service during Normal Work Hours w/ budgeted O/T	Berthing & Hotel Services Full Service during Normal Work Hours Only	Berthing & Hotel Services Full Service during Limited Work Hours
Ship Moves Full Tug Service, 24/7 Surge Capable	Ship Moves Full Tug Service, Surge Capable w/in budgeted O/T	Ship Moves Full Tug Service w/in Established Working Hours	Ship Moves Full Tug Service Limited Working Hours

Strategic Sourcing

The DoN continues to seek efficiencies in its business processes. We want to focus on finding the most cost efficient means to support our war fighters. There are a number of approaches to achieve this goal, e.g., eliminating an unnecessary function or one with marginal benefit; re-aligning a function to improve efficiency; or competing a function to see if it can be provided more effectively or at a lower cost by private industry. We have committed to review over 30,000⁴ positions for competition using the OMB Circular A-76 process by FY-2008, although execution plans have temporarily slowed that pace as we adopt new OMB and Congressional direction on competition policies. We are focusing competitions on those functions that are not critical or core to our military operations, are readily available and can potentially be performed more effectively by the private sector.

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

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

Utility Privatization

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

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

ACTIVE BASE ENVIRONMENTAL CLEANUP

As of the end of FY-2004, 72 percent of the 3,699 environmentally contaminated sites at Navy and Marine Corps active bases have been completed or have remedies in place and operating. We have applied technology opportunities, contracting efficiencies, and other management actions that allowed us to shift funds from the Installation Restoration Program (IRP) (traditional hazardous sites) to the newer Munitions Response Program (MRP) without affecting program metrics or projected completion dates. We also have initiatives to optimize long-term remedies and reduce costs associated with long-term operations and maintenance of cleanup sites. Our FY-2006 request is \$305.1 million includes \$45 million for MRP activities.

Munitions Response Program.

The DoN has identified 231 sites at our training ranges that may require munitions response, of which 212 sites are at 56 active installations and 19 sites are at six prior BRAC installations. Preliminary assessments have been completed for 82 sites at nine active installations, and are underway at 25 active installations. DoN has identified 1,306 acres with munitions and estimates a potential of 66,288 acres with munitions when PA are completed. We expect to meet the DoD near-term goal of completing these preliminary assessments for all known munitions sites by the end of 2007. Until these assessments are completed, we do not believe there are credible estimates for the cost to cleanup.

Vieques Cleanup

The Navy closed Camp Garcia support bases and the training ranges on Eastern Vieques in 2003 and transferred the property to the U.S. Fish & Wildlife Service (FWS). The FY-2002 Defense Authorization Act directs FWS to use the property as a wildlife refuge with the live impact area designated as a wilderness area. Although the areas requiring cleanup are a small portion of the island and Vieques remains one of the few unspoiled, undeveloped areas in the Caribbean, Vieques was recently listed on the National Priorities List (NPL) at the request of the Governor of Puerto Rico. We are working with EPA, the Department of Interior, and the Puerto Rico Environmental Quality Board to develop a Federal Facilities Agreement governing the cleanup. We have budgeted \$28 million in FY-2006 for cleanup at Vieques

PRIOR BRAC CLEANUP & PROPERTY DISPOSAL

The BRAC rounds of 1988, 1991, 1993, and 1995 were a major tool in reducing our domestic base structure and generating savings. The DoN has achieved a steady state savings of approximately \$2.7 billion per year since FY-2002. All that remains is to complete the environmental cleanup and property disposal on portions of 17 of the original 91 bases. We have had significant successes on all fronts.

Last year DoN relinquished over 71,000 acres at the former Naval Air Facility Adak, Alaska, to the Department of the Interior, which enabled Interior to exchange portions of the property with The Aleut Corporation for other lands. Additionally, the Navy achieved a significant milestone at the former Hunters Point Naval Shipyard in San Francisco by conveying the first parcel of 75 acres to the San Francisco Redevelopment Agency. Of the original 161,000 acres planned for disposal from all four prior BRAC rounds, we expect to have less than five percent (about 8,000 acres) left to dispose by the end of this fiscal year.

Property Sales

We have been very successful using property sales to assist in environmental cleanup and property disposal as well as recover value for taxpayers. We have used various methods to conduct these sales, including General Services Administration (GSA) on-site auctions, GSA Internet auctions, and Internet auctions using commercial real estate brokers. We used the GSA Internet web site in 2003 to sell 235 acres at the former Marine Corps Air Station Tustin, CA, for a net \$204 million. We also sold 22 acres at the former Naval Air Facility Key West, FL, in January 2004 for a net \$15 million. The City of Long Beach, CA, opted to pre-pay its remaining balance plus interest of \$11.3 million from a promissory note for the 1997 economic development conveyance of the

former Naval Hospital Long Beach. We applied these funds to accelerate cleanup at the remaining prior BRAC locations.

Last month the DoN completed its largest public sale via Internet auction consisting of four large parcels that total 3,720 acres at the former Marine Corps Air Station, El Toro in Irvine, CA, with bids totaling \$649.5 million. The Internet auction public sale of 62 acres at the former San Pedro housing site in Los Angeles, CA, is still in process with a top bid of \$87 million as this statement was being prepared. We expect to close these sales later this year. We will also soon close escrow on the public sale of approximately 20 acres in Orlando, FL, which is noteworthy as the first deed conveyance of property prior to completion of all environmental cleanup using the public sale process.

Public sales of smaller parcels were completed in Charleston, SC, and Novato, CA, and we expect to proceed soon with the sale of property at the former Oak Knoll Naval Hospital upon resolution of legal issues stemming from a lawsuit by the local redevelopment authority.

Land Sales Revenue Caution

A word of caution is necessary regarding land sales revenue. Although the auction for El Toro has ended and the auction for San Pedro should end soon, it will be several months before these sales close escrow, and several additional months until the DoN receives the sale proceeds in the DoN prior BRAC account. Until then, litigation or default by the winning bidder can delay or cancel the sale, as happened with the sale of the former Oak Knoll Naval Hospital in 2003. The El Toro sale, planned to occur last year, was delayed for one year due to litigation and the need to resolve redevelopment issues with the City of Irvine. That required us to conserve cash for FY-2005 execution.

Because of our experience with the risks associated with predicting future receipt of land sales revenue, our FY-2006 budget includes an appropriation request of \$143 million to cover minimum required environmental cleanup actions under enforceable schedules and ongoing program costs for properties not yet disposed. Notwithstanding these risks, we are optimistic that the El Toro and San Pedro sales will close and the funds will become available.

Prior BRAC Environmental Cleanup

The DoN has spent over \$2.5 billion on environmental cleanup at prior BRAC locations through FY-2004. We estimate the remaining cost to complete cleanup at about \$559 million for FY-2007 and beyond, most of which is concentrated at fewer than twenty remaining locations and includes long-term maintenance and monitoring obligations for remedies already installed and operating at many locations. As we have done previously, the DoN will use any

additional land sale revenue beyond that projected in our FY-2006 budget to further accelerate cleanup at these remaining prior BRAC locations, which are primarily former industrial facilities that tend to have the most persistent environmental cleanup challenges.

Closure of Naval Station Roosevelt Roads, Puerto Rico

In addition to completing property disposals from the four prior BRAC rounds, the Navy closed Naval Station Roosevelt Roads on March 31, 2004, as directed by section 8132 of the FY-2004 Defense Appropriations Act. All military mission activities have been relocated. The DoD schools remained open through the completion of the 2003-2004 school year, as encouraged by the conference report accompanying the Act. Naval Activity Puerto Rico has been established to protect and maintain the property and preserve its value until disposal.

As directed in the Act, the closure and disposal is being carried out in accordance with the procedures contained in the Defense Base Closure and Realignment Act (BRAC) of 1990, as amended. Pursuant to these procedures, the Navy has approved property transfers to the Department of the Army for use by reserve components, and the Department of Homeland Security. The Commonwealth of Puerto Rico formed a Local Redevelopment Authority (LRA). Using grant funding from the DoD Office of Economic Adjustment, the LRA prepared a redevelopment plan for the property that envisions a mix of commercial, residential, and public uses, as well as conservation of large areas of mangrove forest and wetlands. As required by BRAC procedures, we are analyzing the potential environmental impacts of property disposal in accordance with that redevelopment plan. We expect that property disposal process will begin in 2006 and that substantial portions of the property will be disposed through competitive public sale. We do not expect this process to be completed until FY-2007, and have requested \$27 million in FY-2006 to cover caretaker costs and maintain the property in preparation for sale. The Government Accountability Office (GAO) recently reviewed Navy plans and progress in disposing of the former Naval Station Roosevelt Roads. GAO found that Navy was following prescribed procedures and completed their review with no recommendations.

BRAC 2005

BRAC 2005 Decision Process

A successful BRAC 2005 is most important to the DoN , the DoD, and the Nation. It may be our last opportunity in the foreseeable future to reduce excess infrastructure, move scarce dollars to areas that result in increasingly improved readiness, and transform our infrastructure consistent with our defense strategy.

BRAC 2005 provides a fair process that will result in the timely closure and realignment of military installations in the United States. All military installations inside the United States must be considered equally without regard to whether the installation has been previously considered or proposed for closure or realignment. All closure and realignment recommendations must be based on certified data, the 20-year force structure plan, and the published selection criteria that make military value the primary consideration.

Key BRAC 2005 Decision Points
<ul style="list-style-type: none"> • 12 Feb 04: DoD published selection criteria • 23 Mar 04: DoD issued 20-yr force structure plan; world-wide infrastructure inventory; certified need for BRAC 2005 • 15 Mar 05: President must have nominated Commissioners • 16 May 05: SECDEF recommendations due to Commission and Congress • 8 Sep 05: Commission report due to Congress • 7 Nov 05: Last day President can send recommendations to Congress • Recommendations final unless Congress disapproves in 45 legislative days

For BRAC 2005, the Secretary of Defense directed that the analysis be divided into two categories of functions. Joint Cross Service Groups (JCSGs) are analyzing common business-oriented support functions while the Military Departments are focusing on analysis of service unique functions. The following seven JCSGs were established: Education and Training; Headquarters and Support; Industrial; Medical; Supply and Storage, Technical; and Intelligence. The JCSGs and the Military Departments will make their BRAC recommendations to the Infrastructure Executive Council (IEC), the DoD policy making and oversight body for the entire BRAC 2005 process. JCSGs were also

IEC Membership
<ul style="list-style-type: none"> • Deputy Secretary of Defense • Secretaries of the Military Departments • Service Chiefs of Staff • Chairman, Joint Chief of Staff • Under Secretary of Defense for Acquisition, Technology and Logistics

utilized in BRAC 1995 but in a substantially different manner. In BRAC 1995, JCSG analysis and recommendations were provided to the Military Departments for consideration in developing their BRAC recommendations. The creation of the IEC ensures that DoD senior leadership is directly engaged in making these important decisions. Analysis and evaluation by all of the BRAC groups are on-going, with a goal of supporting the

Secretary of Defense’s delivery of a comprehensive set of base closure and realignment recommendations by May 16th.

Despite what some may have read in the newspapers, seen on the Internet, or heard through the rumor mill, the DoD does not have a list of closures or realignments at this time. The number and location of such closures or realignments will only be determined after a comprehensive and rigorous

analytical process that is now underway in the Military Departments and Joint Cross Service Groups.

BRAC 2005 Implementation Funding

DoD has programmed funds through the Future Years Defense Plan for implementing BRAC 2005 decisions. Discussions are underway as to how these funds may be allocated to the Military Departments for implementing BRAC 2005 decisions. Expectations are that BRAC 2005 implementation costs will be financed by a mix of (1) allocation of the DoD funds, realignment of funds from military construction projects and SRM funds no longer needed at closing locations, transfers from environmental restoration accounts, and if necessary, additional military service funds to implement BRAC 2005 decisions.

Preparing to Implement BRAC 2005

The DoN is building upon its experience in completing cleanup and disposal of property from prior BRAC rounds to prepare to implement BRAC 2005 decisions. Recently, the Secretary of the Navy approved formation of a BRAC Program Management Office (PMO) that reports to the Assistant Secretary of the Navy for Installations and Environment. BRAC PMO has assumed responsibility for completing cleanup and disposal of the remaining property from prior BRAC rounds, and it will become responsible for cleanup and disposal of property at installations closed or realigned in BRAC 2005.

The DoN has examined lessons learned from cleanup and disposal of property at prior BRAC bases, especially recent successes using competitive public sales. Much has changed since the last BRAC round in 1995. Environmental contamination at remaining bases has largely been characterized, and cleanup has been completed or is now well underway. A close examination of existing statutory authority and federal regulations for property disposal showed there were ample opportunities to improve the disposal process without the need for new legislation. Private sector capabilities have emerged and matured for "brownfield" redevelopment and insurance industry products to address environmental liabilities when there is a CERCLA early transfer of contaminated property. The DoN expects to take increased advantage of these private sector capabilities.

We will continue to use all of the property disposal authorities in the right circumstances, as we have in the case of the disposal of Naval Station Roosevelt Roads. Like Roosevelt Roads, however, we believe there will be more opportunities to quickly dispose, in cooperation with the local community, BRAC 2005 property requiring environmental cleanup in its existing condition. The Navy will dispose of property using public sale and will include the cleanup of that property with it, as is done in "brownfield" disposals nationwide. This

will allow developers with the experience and expertise to complete the cleanup as they redevelop the property. That benefits communities by getting the property onto local tax rolls and redeveloped more quickly, with the local community controlling that development through traditional land use planning and zoning. It benefits DoD and the federal taxpayer by divesting unneeded property sooner and reducing the environmental cleanup time and expense incurred by DoD. The DON goal for implementing BRAC 2005 is that the last Sailor or Marine leaving the closed base hand the deed to the property to the new owner. We are convinced that this goal is achievable if we start preparations for property disposal as soon as closure decisions are final.

CONCLUSION

In conclusion, we believe we have put forward a very strong FY-06 budget request for our facilities and environmental efforts, while still recognizing the compelling needs of the Global War On Terror. We have funded x percent of Navy and y percent of Marine Corps expected base operating costs, funded 95 percent of predicted sustainment requirements, while the Navy makes progress on its facility recap metric.

We are funding environmental programs to maintain compliance with all environmental standards while accelerating cleanup of past contamination and investing in research and development efforts to solve emerging environmental concerns.

We are proceeding with the analysis and scenario development that will lead to the Secretary of Defense announcement of BRAC 2005 recommendations. We have carefully reviewed our implementation practices from the previous four BRAC rounds and are establishing, in cooperation with DoD, the necessary organizational structures and business policies and practices to accelerate closure, environmental cleanup, and property disposal.

That concludes our statement. We appreciate the support of each member of this committee, and will try to respond to your comments or concerns.