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Multitasking Bases

A successful alternative to base closings.

By Rand H. Fishbein



When Secretary of Defense Donald Rumsfeld and his advisers are not discussing the latest developments in the war on terrorism or emerging threats to U.S. security, it is a good bet the subject is "transformation."

Since assuming office 18 months ago, Secretary Rumsfeld has made the reform of the Pentagon's antiquated acquisition process among his highest priorities. Driven by budget levels insufficient to meet the Pentagon's emerging modernization needs, Rumsfeld has set about to find new and creative ways to equip, train, and field the military of the future.

One area where the secretary would like to find savings is in the area of military infrastructure. Like his predecessor, Secretary Donald Rumsfeld is leaning toward additional base closures as one way to achieve both quick results and an out-year reduction in expenditure.

However, experience suggests that this would be an unwise move since it would yield neither the desired near-term benefits, nor the necessary enhancements to military readiness. Far from being a windfall to the department, base closures will again prove to be a costly undertaking, politically contentious, and wasteful of a national resource that today is both valuable and irreplaceable.

In the aftermath of Sept. 11, many defense and law-enforcement officials now see secure U.S. bases as an essential part of the war on terrorism. Their diversity and versatility give rise to a multitude of uses, from supply depots and staging areas, to sites for the operational test and evaluation of new weapons systems and tactics.

During times of emergency, U.S. military installations can serve as back-up headquarters and as places where valuable national assets can be located and protected. In the unfortunate case of a terrorist attack on civilian infrastructure, military installations can provide a place of refuge, alternative communications, a command center for recovery operations, or serve as a back-up source of first responders.

Yet, all of these public benefits, many as yet unforeseen, are lost when a base is closed. With closure, environmental costs, unfunded pensions, and community economic-adjustment assistance become a near-term drain on scarce appropriated dollars rather than

being financed over time, off-budget, and in a manner that encourages sustainable development.

The solution preferred by many reformers is the one based on the Army's highly successful Armament Retooling and Manufacturing Support (ARMS) program. For nearly ten years, ARMS has transformed the nation's government-owned, contractor-operated (GOCO) ammunition industrial base from one that was wasteful and inefficient to one that boasts higher levels of readiness at reduced cost.

Where once these GOCO plants hemorrhaged a total of \$50 million per year, on average, in appropriated funds, now they *generate* approximately \$37 million in annual revenue for the Army. In fact, three plants have been run at zero cost to the Army, making them the first military installations in the history of the U.S. to do so.

The secret lies in the commercialization of the use of U.S. defense installations for both military and non-military business purposes. This dual-use strategy enables the government to recover a portion of its massive investment in infrastructure by allowing local communities to benefit from available plant and equipment. In this way, effective public-private partnerships develop which then return value to the taxpayer, stimulate growth in local economies, bring business from overseas and generate revenue that can be applied to base readiness.

Evaluations conducted by such independent groups as the international accounting firm of Pricewaterhouse Coopers (PwC), the Army Audit Agency (AAA), the U.S. General Accounting Office (GAO), Pacific Northwest National Laboratory (PNNL), the Army Cost and Evaluation Center, and the U.S. Congress have confirmed the benefits of the ARMS model.

The advantages of this approach are clear. Whether an installation is active, inactive or slated for disposal, using its native endowments to generate income creates employment, preserves critical military skill sets, and lowers overhead and the cost of government production in ways impossible under the base closure process. Some of these endowments may include buildings, land, water, roads, manufacturing capacity, warehouse space, rail, waste-treatment facilities, utilities, fire suppression, hazardous materials handling capability, laboratories, dry docks, test stands, and diagnostic equipment, to name a few.

All federal funds appropriated to ARMS are repaid in five-six years. Serving effectively as loans, these funds are used to prime the economic pump at ARMS installations by providing a spectrum of tenant incentives. The incentives range from building modifications and environmental baseline studies to backing for an ARMS loan-guarantee program.

Using the ARMS model, service secretaries can now offset the cost of asset ownership by transforming real property and equipment into a perpetual revenue stream. Income from rental payments, service fees, and asset sales will help, over time, to decrease the reliance

of base commanders on scarce, and often unreliable, real property maintenance (RPM) appropriations.

Having access to a predictable source of local funds also permits better long-range infrastructure planning, enabling commanders to more effectively address the growing backlog of unfunded base maintenance and repair. Once these requirements are met, funds can then be set aside for environmental compliance and remediation activities, historic preservation, or a range of other discretionary and non-discretionary needs.

Over the last decade, ARMS has yielded an impressive set of accomplishments, including:

- Attracting 87 tenants;
- Creating over 5,000 jobs inside the gate and 25,000 outside the gate;
- Leveraging over \$171 million in private investment;
- Generating over \$2.1 billion in local economic benefits;
- Reducing ammunition production costs by 60 percent;
- Returning revenue to the Army of \$197 million from FY94 - FY01; and
- Preserving over 25 critical war-production skills.

For ARMS to work, the government must reengineer its accounting procedures and regulations to view infrastructure as an asset, not a liability. Pentagon leaders, beginning with the secretary, must give wide berth to base commanders wishing to utilize their facilities in ways that maximize both military readiness and business opportunity.

Using ARMS as a starting point, those now reviewing Pentagon out-year requirements should halt the excessing and disposal of all government bases and industrial facilities until a careful evaluation is done of their revenue-generating potential.

In keeping with GAO recommendations now nearly 15 years old, each of the service secretaries should appoint a real-estate manager. The manager would oversee the transformation of military infrastructure from its single use status to its highest and best use while still ensuring appropriate military readiness.

The focus of property managers should be on driving overhead costs down by leveraging the asset value of government holdings in the marketplace. Instead of additional base closure rounds or increased appropriations, the goal at many military facilities should be sustainable economic development. Managers should move speedily toward the adoption of best business practices and the encouragement of public-private partnerships.

Well before 2005 when the next round of base closures is set to commence, the service secretaries should begin a high-level review of all existing policies and authorities which both encourage and discourage the efficient commercial reuse of DoD assets. Based upon these results, the secretary of defense should approach Congress with a request to make

the appropriate statutory changes so that sustainable development, and not disposal, becomes the new watchword of the department.

As ARMS has shown, base closures are not a panacea for the department's budgetary woes. In many instances, they represent a false economy, the squandering of a precious, often nonrenewable national resource that can be returned to productive public use even after its original mission has been scaled back or terminated.

As the administration continues its deliberations over the future of America's defense infrastructure it would do well to remember the words of former assistant secretary of the Army, Gil Decker, who wrote: "This program (ARMS) is turning out to be a real success... This may be the only 'defense conversion' program that has produced anything useful."

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