

HOLD UNTIL RELEASED
BY THE COMMITTEE

STATEMENT OF

**MR. PHILIP W. GRONE
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)**

**BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT
OF THE
SENATE HOMELAND SECURITY/GOVERNMENTAL AFFAIRS
COMMITTEE**

May 24, 2007

Chairman Carper, Senator Coburn and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you today to address the April 2007 GAO report on “Federal Real Property, Progress Made Toward Addressing Problems, but Underlying Obstacles Continue to Hamper Reform,” and provide some insight to the progress being made within the Department of Defense.

Overview

Federal real property was first designated in January 2003 as a high risk area because of issues concerning inaccurate inventory reporting, deteriorating facilities, unidentified underutilized facilities and the challenge of protecting facilities from future terrorist attacks. Since the issuance of Executive Order 13327, “Federal Real Property Asset Management,” in February 2004 and the inclusion of real property as an initiative in the President’s Management Agenda (PMA), DoD has embraced the importance of improving the accuracy of data collection and management of physical infrastructure.

DoD manages the largest portfolio of real property within the Federal Government with over 533,000 buildings and structures, which reside on over 51,400 square miles of real estate worth in excess of \$712 billion. Working in conjunction with the Federal Real Property Council (FRPC) the Department is vigorously managing its facilities and infrastructure to ensure that it delivers cost effective, safe, and environmentally sound capabilities and capacities in support of the National Defense Mission and the Global War on Terrorism.

Realizing that the Department has challenges with properly managing and maintaining its assets, we have undertaken an aggressive, comprehensive program to transform business processes with the end goal of having complete integrated asset management – from planning through disposal. Key transformational programs include:

Real Property Inventory Requirements (RPIR) Project

Working together with the DoD business transformation program, the Department undertook a comprehensive business process reengineering project focused on real property asset accountability. DoD developed real property data standards linked to lean lifecycle management processes. The Department instituted a DoD-wide plan for full implementation of the project that includes IT system changes, implementing the data standards, standing up a unique identifier registry (Real Property Unique Identifier Registry (RPUIR)) and the creation of a net-centric data warehouse (Real Property Assets Database or RPAD) for all real property that DoD owns, leases or otherwise manages. The Department has already stood up the RPUIR and is well underway with achieving interim operating capability on the net centric RPAD and expects full implementation of the RPIR project by September 30, 2009. When fully implemented, all DoD personnel who manage DoD's real property will have consistent, reliable and accurate real property asset information available to any authorized user for any appropriate management purpose. This will improve our asset management and allow us to have complete visibility of all our assets.

Base Realignment and Closure (BRAC)

DoD has begun implementing a significant transformation to the Total Force and its operational capability based on the BRAC 2005 recommendations. BRAC will ultimately affect over 800 locations across the Nation through 24 major closures, 24 major realignments, and 765 lesser actions. BRAC recommendations are expected to reduce our PRV by approximately 3.7 percent or \$20B.

Excess Facilities and Disposals

The Military Departments, in close collaboration with the affected community and in accordance with the Base Redevelopment and Realignment Manual (BRRM), have the option to use a variety of property conveyance methods that we refer to as the “mixed toolbox.” Essential to the Department’s success is the local redevelopment plan wherein a local consensus for the uses of surplus property is identified; communities are presently undergoing this planning process. Upon completion, the Military Departments may then dispose of surplus real and personal property at the installation in various ways to support the local redevelopment plan. Timetables for these actions are dependant on the ability of receiver locations to house new operations, and, therefore, at this point, to be determined.

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. DoD continues to encourage the Military Departments to pursue aggressively disposal and demolition to reduce unnecessary facilities sustainment and support costs, improve the overall safety and quality of installations, and ensure that only required infrastructure is retained in the inventory. In 1998, in accordance with Defense Reform Initiative 36, “Disposal/Demolition of Excess Structures,” the Department undertook a six-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, DoD concluded that effort by exceeding its target - removing a total of 86 million square feet. In a continuation of that effort, the Department completed a survey of additional disposal requirements in December 2004. With that survey as a starting point, the Military Services and selected Defense Agencies are in the process of establishing new targets to eliminate over 50 million square feet of facilities and additional excess infrastructure by the year 2013.

Efforts are underway to refine the manner in which disposals are forecast, and to reflect them more accurately in the real property inventory. This will provide a more refined view of the global inventory of facilities that will support improved accuracy in determining requirements for facilities sustainment, restoration and modernization. Key to this effort is the disposal banking process which is an accounting system for tracking disposals not affiliated with a construction project. Disposal banking creates a linkage between eliminated facilities and constructed facilities that are otherwise separated by location and date. The result is a comprehensive view of the impact of disposal and construction on the inventory.

Sustaining, Restoring and Operating our Infrastructure

Management of the Department of Defense portfolio is predicated on a multi-tiered strategy that is designed to prevent deterioration, counter obsolescence, restore lost capabilities, and eliminate excess capacity. To facilitate implementation of this strategy, DoD developed models and metrics to predict funding needs and established goals and performance measures that place the management of Defense infrastructure on a more objective, business-oriented basis. Among these continued improvements in business practices is a focus on improving the quality of military installations with emphasis on more accurate facility “Quality Ratings,” as well as improving other performance measures including utilization, mission dependency and operating costs.

Sustainment: Facilities sustainment provides funds for maintenance and major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle. Sustainment prevents deterioration, maintains safety, and preserves performance over the life of a facility. To forecast funding requirements, DoD developed the Facilities Sustainment Model 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 Department-wide long-term goal remains to fully fund sustainment to optimize the investment in our facilities and ensure their readiness. In balancing risk across the Department's program, the Fiscal Year 2008 budget request reflects a slight decrease in the Department-wide sustainment funding rate to 88 percent, although the total amount of funds requested for the program represent an increase of \$466 million. The Department-wide long term goal remains full funding for sustainment to optimize the investment in our facilities and ensure their readiness.

Recapitalization: Recapitalization includes restoration and modernization, provides resources for improving facilities, and 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. The current DoD goal remains a recapitalization rate of 67 years. In FY 2001, the Department's recapitalization rate was 192 years; by FY 2007, the rate improved to 72 years.

Operations: The Department has recently established a common definition for Facilities Operation, formerly referred to as "Real Property Services" to cull out the real funding costs for utilities, leases, custodial services, grounds maintenance, and other related functions. The Facilities Operation Model was fielded in the fall of 2005 to develop standard requirements and the Department is continuing to refine the model with particular emphasis on Fire and Emergency Services and Real Property Management and Engineering Services.

Federal Real Property Council (FRPC) Leadership and Compliance

DoD is an active member of the FRPC and currently chairs the Inventory and Performance Measures Committee. The Department of Defense has the largest inventory submission of the Federal government and has successfully met the inventory reporting requirements for the Federal Real Property Profile (FRPP) for the past two years. Last year alone, DoD submitted over 20 million separate pieces of data from five different originating data sources. This data was imported into a web-friendly format for transmission as part of the DoD annual submission. DoD's current process includes the collection of real property inventory data from the three Military Departments, the Washington Headquarters Service and the United States Army Corps of Engineers for processing and electronic submission to the FRPP. The Department has also developed process changes that will ensure that improvement of the accuracy of future data submissions including the establishment of an internal data validation tool.

Consistent with the guidance of the FRPC, DoD developed an asset management plan (AMP) focused on improving asset management planning, inventory and performance measurement data, as well as the disposal of unneeded assets. The asset management plan has been approved by the Office of Management and Budget (OMB) and is consistent with the FRPC standards. DoD is currently implementing the AMP resulting in continued improvements to the DoD asset management program.

Governance

The Department recognizes the need to ensure improved real property asset management across all DoD activities and has established a clear governance structure and processes. The Department's transformation initiatives are driven by top leadership and supported across all

Components and all levels. The Installations Capability Council, which oversees the creation and implementation of improvement capabilities, and the Real Property Installations Lifecycle Management Investment Review Board (RP&ILM), ensures that Information Technology (IT) systems are modernized to support the new business enterprise capabilities. These governance processes support federated management because the business owners themselves drive business modernization and the associated support IT. These capabilities have also been completely integrated into the activities of the Business Transformation Agency, ensuring that RP&ILM capabilities support the broader DoD enterprise business transformation efforts.

CONCLUSION

In closing, Mr. Chairman, I sincerely thank you and this Committee for this opportunity to highlight the Department's successes and challenges in the management of DoD's real property portfolio and outline its plans for continued improvements in the future. I appreciate your continued support and I look forward to working with you as we continue to transform these plans into actions.