

GAO

Report to the Honorable
Robert A. Borski, House of
Representatives

April 1998

MILITARY BASE CLOSURE

Questions Relating to Relocating Two Navy Activities to North Island, California





**United States
General Accounting Office
Washington, D.C. 20548**

**National Security and
International Affairs Division**

B-278431

April 30, 1998

The Honorable Robert A. Borski
House of Representatives

Dear Mr. Borski:

This report responds to your request that we review the Navy's planned relocation and consolidation of the Naval Air Technical Services Facility and the headquarters of the Naval Aviation Engineering Service Unit, currently located in Philadelphia, Pennsylvania, to the Naval Air Station at North Island, California. These actions are being taken in response to the recommendations of the 1995 Base Closure and Realignment (BRAC) Commission. You noted a change to the Navy's original plan regarding how these functions would be consolidated at North Island. On the basis of questions raised in your request and discussions with your office, this report addresses (1) the current plan's compliance with the Commission's recommendations, (2) the effect of the new alignment on the original savings estimate, (3) the cost estimate associated with moving the Technical Services Facility and the Engineering Service Unit functions to North Island, and (4) the feasibility of consolidating these functions at less cost in Philadelphia.

Background

As part of the Naval Air Systems Command, the Technical Services Facility and the Engineering Service Unit have roles in the naval aviation support and maintenance mission. The Technical Services Facility is responsible for the management of technical data, engineering drawings, and technical manuals. The Engineering Service Unit is the headquarters component of a worldwide organization providing engineering assistance and instruction to naval aviation activities. Both organizations are tenants of the Naval Inventory Control Point in Philadelphia. The 1995 BRAC Commission recommended in July 1995 that the Secretary of Defense close both activities and consolidate all necessary functions, personnel, and equipment with the Naval Aviation Depot, North Island, California. The Commission estimated the consolidation would cost a total of about \$8.6 million and would result in annual recurring savings, based on personnel reductions, of \$4.6 million. At the time, the Technical Services Facility and the Engineering Service Unit headquarters had about 210 and 80 employees, respectively.

The Navy originally planned to combine the Technical Services Facility and the Engineering Service Unit with the Naval Aviation Depot, a Defense Business Operations Fund activity. However, in January 1997, the Commander of the Naval Air Systems Command directed the Technical Services Facility and the Engineering Support Unit to combine and form a separate command—the Naval Air Technical Data and Engineering Service Command—at the Naval Air Station, North Island. Necessary support functions are expected to be purchased from the Naval Air Station or the Naval Aviation Depot. Relocation of Technical Services Facility and Engineering Service Unit activities to North Island is scheduled to occur in late fiscal year 1998, and termination of these activities in Philadelphia is expected to be completed by mid-January 1999.

Results in Brief

The Navy's current plan to combine the Technical Services Facility and Engineering Service Unit complies with the Base Closure and Realignment Commission's recommendations. The Department of Defense believes, and we agree, that the Commission's recommendations on closing and moving the activities to North Island are legally binding but that the Department has latitude in how it chooses to organize and manage activities that have been realigned in accordance with the recommendations. However, we found no indication that Naval Air Systems Command officials had assessed the cost impact or potential savings to the Navy of consolidating the activities with the Naval Aviation Depot. As a result, the Navy may be missing an opportunity to achieve greater savings by not merging the affected activities with the Aviation Depot.

The estimated one-time implementation cost of the planned relocation of the Technical Services Facility and the Engineering Service Unit to North Island is \$12.7 million, or about \$4.1 million higher than the Commission initially estimated. Our work shows the current estimate is based on credible Navy plans and data. The increase over the Commission's estimate appears reasonable and is primarily attributable to the unanticipated renovation of Naval Aviation Depot facilities for housing Technical Services Facility employees and equipment and more realistic personnel cost estimates that exceeded the standard cost factors used in the Commission's analysis.

Although it appears that the personnel costs would have been minimized or avoided by consolidating the affected activities with other Navy activities in Philadelphia, the Navy believes that the planned move

provides operational benefits that outweigh the cost of the move. Moreover, consolidation in Philadelphia is not an option because the Commission's recommendations require that the activities be moved to North Island.

Navy's Plan Complies With the Commission's Recommendations

The Naval Air Systems Command's decision in January 1997 to consolidate the Technical Services Facility and the Engineering Service Unit into a new command at North Island Naval Air Station, rather than integrating them with the Naval Aviation Depot, raised questions about compliance with the BRAC Commission's recommendations. The Department of Defense (DOD) believes that the establishment of the Naval Air Technical Data and Engineering Service Command complies with the Commission's recommendations. The Deputy Under Secretary of Defense for Industrial Affairs and Installations said that, although DOD is legally bound to implement the Commission's recommendations, it is free to decide how a military department will organize and manage a realigned activity once that realignment has occurred.

We agree with DOD's position. Under the Base Closure and Realignment Act of 1990, the Secretary of Defense is required to close or realign all military installations recommended for closure or realignment by the BRAC Commission. The act does not define what is meant by "close," but it defines "realignment" as any action that reduces and relocates functions and civilian personnel positions. The Commission's recommendations for both the Technical Services Facility and the Engineering Service Unit contain all of the elements of a realignment. Therefore, to satisfy its obligation under the legislation, DOD must relocate the activities to North Island. Once this action has been accomplished, DOD may determine the appropriate organizational alignment. The definition of realignment does not include a description of how a relocated function must be organized and managed.

Option for Potentially Greater Savings Has Not Been Assessed

The Naval Air Systems Command did not assess the total cost impact to the Navy from consolidating the activities with the Naval Aviation Depot. Naval Air Systems Command officials told us that, before their decision to establish a new command, a team of personnel from the Technical Services Facility, the Engineering Service Unit, Naval Air Systems Command headquarters, and North Island Naval Aviation Depot analyzed the costs of various scenarios for accomplishing the consolidation of the two functions as part of the Aviation Depot. According to Naval Air

Systems Command officials, the ultimate decision about the organizational alignment of the two units was largely affected by considerations of how customers would be affected by the change. In Philadelphia, the units were funded by appropriations. Their customers (e.g., the Pacific Fleet) did not pay for services. The same arrangement will exist once the activities are combined in a separate command at North Island.

If the activities were consolidated with the Naval Aviation Depot, they would have become part of the Navy's working capital fund, a type of revolving fund.¹ Naval Air Systems Command officials were concerned that, under such an arrangement, Technical Services Facility and Engineering Service Unit customers would begin to pay for overhead expenses that are unrelated to the activities. Although this arrangement may have resulted in higher costs to Technical Services Facility and Engineering Service Unit customers, it may have reduced overall costs to the Navy because the addition of these two activities might have decreased charges to other customers.

The Navy and the BRAC Commission originally anticipated annual recurring savings of about \$4.6 million once the realignment had been completed. Specifically, they expected to reduce staffing by 72 (adjusted to 69) civilian support positions.² Naval Air Systems Command officials said that, by implementing innovative reengineering practices within the new command, they will be able to accomplish the organization's missions at the reduced funding and personnel levels. However, details on expected reengineering efforts were not available at the time of our review.

Estimated Costs for the North Island Consolidation Have Increased

The Navy's current cost estimate for relocating the Technical Services Facility and Engineering Service Unit from Philadelphia to North Island is about \$12.7 million, as shown in table 1. This one-time relocation estimate is about \$4.1 million higher than the BRAC Commission originally estimated.

¹Under this arrangement, assets are capitalized, and all income—from offsetting collections derived from the fund's operations—is available to finance the fund's continuing cycle of operations without fiscal year limitation. Customers are billed a proportional share of the activity's overhead costs.

²We confirmed these reductions in our examination of preliminary fiscal year 1999 budget submissions for the Technical Services Facility and the Engineering Service Unit.

Table 1: Estimated One-Time Relocation Costs for Technical Services Facility and Engineering Support Unit Activities

Dollars in millions			
Cost category	Technical Services Facility	Engineering Service Unit	Total
Civilian personnel	\$6.0	\$2.6	\$8.5
Military construction	1.5 ^a	0.4	2.0
Miscellaneous	1.5	0.7	2.2
Total	\$9.0	\$3.7	\$12.7

^aThe fiscal year 1999 amended budget estimate for the Technical Services Facility, submitted to the Congress in February 1998, includes \$2.7 million for military construction. However, according to Navy budget officials, the actual figure is \$1.5 million.

Civilian personnel cost estimates include the cost of moving personnel to North Island, severance pay, and voluntary separation incentives. These estimates, which are currently about \$1.5 million higher than the Commission's estimates, appear reasonable because Naval Air Systems Command officials based these estimates on actual workforce data and current personnel assumptions rather than standard cost factors drawn from historical data and averages that were used by the Commission in estimating costs.

Military construction costs include renovation and modification to existing facilities at North Island to accommodate the new command. Originally, no military construction funds were expected to be needed. However, funds were necessary to convert existing shop and storage areas for use by the command. These costs would have been incurred even if the activities had been consolidated with the Naval Aviation Depot. The construction cost estimate appears reasonable based on our discussions with the Naval Facilities Engineering Command official that is monitoring the renovation process. According to this official, the Navy had recently awarded a \$1.5 million contract for the renovation work, which is scheduled for completion in late July 1998.

Miscellaneous costs include installing dedicated communication lines, disassembling and packing equipment and furniture, reinstalling the items, and purchasing equipment to make existing computers compatible with those at North Island. The cost estimate for this category is reasonable based on our review of supporting documentation.

Consolidation at Another Location Is Not an Option

The Navy does not have the legal option to consolidate the Technical Services Facility and Engineering Service Unit at another location in Philadelphia because the BRAC Commission specifically recommended that these activities be moved to North Island. Changes to Commission recommendations to close or realign facilities require specific legislative authority. Public Law 101-510 allowed DOD to propose changes to previous Commission recommendations while it was considering new base closures in rounds conducted in 1991, 1993, and 1995. However, such authority expired in 1995. DOD may close or realign bases under 10 U.S.C. 2687, but this provision has not been useful for that purpose.³

You asked that we consider whether the Navy could have achieved greater savings through other consolidation alternatives in the Philadelphia area, although not a legal option. Employee groups had developed alternatives to the relocation, including consolidating the Technical Services Facility with the Naval Inventory Control Point in Philadelphia. Under the assumption that space was available at other Navy activities in the Philadelphia area and that necessary renovation and modification costs would be relatively limited, as is the case at North Island, the savings from such a consolidation in Philadelphia would appear to be much greater because the majority of the costs associated with relocating the Technical Services Facility and Engineering Service Unit to North Island are personnel costs.

Naval Air Systems Command officials agreed that the new command could have been established in the Philadelphia area or, for that matter, essentially anywhere else in the country. However, the officials believed that intangible benefits can be gained by relocating the activities to a geographic location, such as San Diego, with close proximity to one of their principal customers—the Pacific Fleet. The officials also believed that this advantage outweighs the one-time moving costs. Further, the officials stated that the technical skill requirements for personnel in the new command are different from the skills currently possessed by the Philadelphia-based Technical Services Facility staff and that remaining in Philadelphia would have necessitated other significant costs, such as training, to meet the new workforce requirements.

³Our report, *Military Bases: Lessons Learned From Prior Closure Rounds* (GAO/NSIAD-97-151, July 25, 1997), noted that the time-consuming processes associated with implementing the requirements of 10 U.S.C. 2687 effectively stopped individual closure actions for a number of years before implementing special legislative authorities for BRAC rounds in 1988, 1991, 1993, and 1995.

Recommendation

Because the Navy has not fully analyzed the savings potential associated with the current consolidation plan, we recommend that the Secretary of Defense instruct the Secretary of the Navy to conduct such an analysis before finalizing consolidation plans for the two activities and, if appropriate, adjust the plans.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD agreed with our opinion that the Navy's plan to combine the Technical Services Facility with the Engineering Service Unit at North Island Naval Air Station complies with the BRAC Commission's recommendation and that relocation of these activities at another location is not a legal option. Also, DOD agreed with our recommendation that the Navy conduct a cost and savings analysis before finalizing its consolidation plans for these two activities and for them to adjust those plans, if appropriate. DOD's comments appear in appendix I.

Scope and Methodology

We made a comparative analysis of Naval Air Systems Command and BRAC Commission realignment costs and savings estimates and plans for moving Technical Services Facility and Engineering Service Unit operations to North Island, California. We also obtained DOD's response to several questions, including the Navy's compliance with the Commission's recommendations involving these activities.

We reviewed pertinent documents and interviewed officials from the Department of the Navy and Naval Air Systems Command headquarters at the Naval Air Station, Patuxent River, Maryland, and in the Washington, D.C., area. We also visited officials and analyzed documents at the Technical Services Facility and Engineering Service Unit in Philadelphia, Pennsylvania. We met with Technical Services Facility representatives currently assigned to North Island and officials from the Naval Aviation Depot at North Island. We reviewed documents on Navy and BRAC Commission work regarding the Technical Services Facility's and Engineering Service Unit's relocation. In addition, we obtained available documentation from Naval Air Systems Command officials concerning planned personnel authorization reductions. To determine the reasonableness of implementation cost estimates, we examined documentation supporting those estimates and discussed their rationale with officials from the Technical Services Facility and Engineering Service Unit.

We conducted our review between September 1997 and February 1998 in accordance with generally accepted government auditing standards.

We are providing copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services and the House Committee on National Security; the Director, Office of Management and Budget; and the Secretaries of Defense and the Navy. We will also make copies available to others on request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are Barry W. Holman; James R. Reifsnyder; Raymond C. Cooksey, Jr.; and Joseph J. Faley.

Sincerely yours,

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal flourish extending to the right.

David R. Warren, Director
Defense Management Issues

Comments From the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000



April 3, 1998

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft report, "MILITARY BASE CLOSURE: Questions Related To Closing Two Navy Activities," Dated March 6, 1998, (GAO Code 709299/OSD Case 1560).

We agree with the draft report's conclusions that the Navy's plan to combine the Technical Services Facility with the Engineering Support Unit at North Island, California, complies with the BRAC Commission's recommendation, and that relocation of these activities to some other location is not a legal option. We are pleased that this draft report supports our position that we have the latitude in determining how best to organize and manage activities that have been realigned in accordance with BRAC recommendations.

We also agree with the report's recommendation that the Navy conduct a cost benefit analysis prior to finalizing their consolidation plans for these two activities, and for them to adjust those plans, if appropriate. Such a study may surface opportunities for greater savings if the activities were consolidated with the Aviation Depot at North Island. The Navy will be initiating that study prior to finalizing consolidation plans.

The Department appreciates the opportunity to comment on the draft report.

John B. Goodman
Deputy Under Secretary
(Industrial Affairs & Installations)



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