

CRS Report for Congress

Received through the CRS Web

Military Base Closure: Socioeconomic Impacts

Tadlock Cowan
Analyst in Rural and Regional Development Policy
Resources, Science, and Industry Division

Baird Webel
Analyst in Economics
Government and Finance Division

Summary

Congress has authorized the U.S. Department of Defense to begin its fifth round of military base realignment and closing since 1988. A list of bases that the department recommends closing or realigning was presented to the recently established Base Realignment and Closure (BRAC) Commission for its consideration on May 13, 2005. The department-generated list recommends 33 major closures and 29 major realignments by 2011. In addition, 48 bases are recommended for significant expansion. The loss of related jobs, and efforts to replace them and implement a viable base reuse plan, will pose significant challenges for affected communities. While the base closures and realignments create substantial socioeconomic distress in communities initially, research has shown that they generally have not had the dire effects that many communities expected. For rural areas, however, the impacts can be greater and the economic recovery much slower. Drawing from existing studies, this report assesses the potential community impacts and proposals for minimizing those impacts.

Background. To better confront the military demands of a post-Cold War world, as well as to reduce costs of maintaining excess military infrastructure, Congress authorizes the Department of Defense to realign or close military bases.¹ Following an examination of its military forces and installations, the department compiles a list of recommended Base Realignment and Closing (BRAC) actions. This proposed list of base closures and realignments is presented to the independent BRAC Commission, which

¹ 10 U.S.C. Section 2687 authorizes the Base Realignment and Closing (BRAC) process for military installations at which at least 300 civilian personnel are authorized to be employed, or the realignment of any military installation where at least 300 civilian personnel are authorized to be employed and where it is intended to reduce the work force by more than 1,000 or by more than 50% of the number of civilian personnel authorized to be employed at the installation.

reviews the proposed actions and sends the list to the President with any recommended changes. After the President reviews and approves the list, it is sent to Congress. The recommended list is automatically enacted unless Congress passes a joint resolution disapproving the list as a whole and sustains it over a potential presidential veto. Following the actual base closings and realignments, the Department of Defense carries out an environmental remediation plan to enable the conveyance of surplus federal land to other entities.²

Four separate BRAC rounds were initiated in 1988, 1991, 1993, and 1995.³ In total, 97 bases were closed or realigned by these rounds. By 2001, the Department of Defense had implemented the recommendations from the previous rounds, although in 2005, significant environmental remediation and asset transfers remain unfinished in many of the affected communities. Congress authorized a fifth round of military base realignments and closures for 2005 through the National Defense Authorization Act of 2002 (P.L.107-107). A primary objective of the 2005 BRAC round is what the department calls “joint activity.” This involves integration and realignment of cross-service functions in such areas as industrial, supply and storage facilities, technical, training, headquarters, and support activities (e.g., medical and intelligence). The list of recommended actions to achieve these objectives was presented to the BRAC Commission on May 13, 2005. The commission will study the recommendations, make site visits to individual bases, and issue any amendments to the list by September 8, 2005. At that point, the list will be forwarded to the President for approval. It will then go to Congress.

Community Economic Impact Analyses. Small-area economic impact analysis can be a difficult undertaking. Assumptions and supporting statistical reasoning may lead to predictions that are, in hindsight at least, inaccurate. For example, multiplier effects, which measure the rate at which a direct effect (e.g., base job losses) creates indirect effects, are a central pillar in estimating the impacts of a base closing. If, for example, one assumes that a base job has a large indirect employment multiplier (e.g., 2.5-3.0), then for each direct base job lost, indirectly related jobs in some defined geographic area are also predicted to be lost as a result. Similarly, an income multiplier allows one to estimate total income generated by a military base. Assumptions about the extent to which incomes are spent within a community can lead to very different assessments of the impacts from the loss of that income.

A shift to a smaller employment multiplier will show a much reduced total employment loss from closure. Using data from military base closings between 1971 and 1994, a 2001 study estimated multipliers of less than one and concluded that employment costs were mostly limited to the direct job loss associated with military transfers out of the region. On average, the study found that per capita income was little affected by the closures.⁴ Base closings in communities that have been declining economically for some

² For a detailed examination of the BRAC process, see CRS Report RS22061, *Military Base Closures: The 2005 BRAC Commission*, and CRS Report RS21822, *Military Base Closures: DOD's 2005 Internal Selection Process*.

³ Military bases were also closed between 1960 and 1987, but not under the BRAC process as authorized by Congress.

⁴ Mark A. Hooker and Michael M. Knetter, “Measuring the economic effects of military base (continued...)”

time may produce impacts different from (and possibly more severe than) those of base closings in communities where growth and economic diversification are more in evidence. The relative strength or weakness of the national or regional economy also can strongly influence the magnitude of community effects from base closure or realignment and the length of time for economic recovery. Evidence from earlier base closures further suggests that the impacts are often less than expected because, unlike many other major employers, military bases can be relatively isolated economic entities, purchasing base needs outside the community and spending income on bases rather than in the local community.⁵

Local communities are also concerned about the fiscal impacts borne by local governments, especially rural governments. Because of population loss and changes in local income, base closures also affect the ability of local governments to raise revenue. Revenue from property taxes, sales tax, licenses and permits, and state and federal aid are influenced by population gains and losses. Local government expenditures and services, such as water and sewerage costs, highways, public safety, and education, can also be affected by closure and realignment, depending on the extent to which the military base is integrated into the community's fiscal planning. Here as well, statistical assumptions can lead to significant differences in estimated impact. For example, an economic development analyst estimated that the closure of Hanscom Air Force Base would mean the loss of about \$200 million in defense contracts to Massachusetts's firms. Another analysis estimated the same losses at \$3 billion.⁶ A review of impacts on local government revenue and expenditures, however, generally confirmed that these impacts were, like those impacts affecting the economy, not as severe as had been originally anticipated.⁷

The announcements of previous BRAC Commissions have been greeted in affected communities and elsewhere by significant concern over the potential consequences of closing or significantly realigning a base. Military bases in many rural areas, for example, often provide an economic anchor to local communities. Even where the local and regional economy is more diversified, military bases provide a strong social and cultural identification that is shaken by the announcement that a base is closing or being downsized. Not only can there be an immediate impact from the loss of military and civilian jobs, but local tax revenues can decline, leaving counties and communities less able to provide public services. School districts with a high proportion of children from

⁴ (...continued)

closures," *Economic Inquiry*, 39(4), 2001.

⁵ D. Daicoff, D. D. McCluggage, C. K. Warriner, and R. R. Olsen, "Economic impact of military base closings," *Arms Control/Disarmament Agency/E-90, I and II* (Washington, D.C: U.S. Arms Control and Disarmament Agency, April 1970); D. A. MacKinnon, "Military base closures: Long range economic effects and implications for industrial development," *American Industrial Development Council Journal* 13(3), 1978; T. Muller, R. Hansen, and R. A. Hutchinson, *The Local Economic and Fiscal Impact of New DOD Facilities: A Retrospective Analysis* (Bethesda, MD: Logistics Management Institute, 1991).

⁶ Matt Viser, "Analyst: Don't overestimate impact of Hanscom closure," *Boston Globe*, April 3, 2005.

⁷ M. Hattery and R. Koch, "The fiscal impacts of base closures: Insights for rural local governments," *Government Finance Review*, April 1995.

military families can experience significant declines in enrollment. With these effects can come related reductions in state and/or federal funding. With the importance given to joint service activity in this BRAC round, many bases would see their functions moved to other bases. Other bases, however, would greatly expand, creating potentially significant impacts on schools, housing, traffic, and local government services.

The timeline for implementing the recommendations in the 2005 BRAC is six years. Communities will have until 2011 to adjust to the changes and plan for transfer of the base to the community for redevelopment. While it is predictable that communities will react to news of a base's closing with concern and anxiety, evidence from past BRAC rounds shows that local economies are, in many cases, far more resilient after an economic shock than they expected. Some worst-case scenarios predicted for communities did not occur, perhaps because they were based, in part, on assumptions about economic multipliers, the perceived versus actual role of a base in the local economy, and over-generalization from individual cases where there was significant economic dislocation. Many communities that developed a comprehensive and realistic plan for economic redevelopment were largely able to replace many of the lost jobs and restore lost income. The Department of Defense's programs for assisting communities with base redevelopment (e.g., the Office of Economic Adjustment) are also likely to have played a role in mitigating some of the effects of base closure. Some communities came to regard the closing as an opportunity for revitalizing and diversifying their economies. Other communities found they were in stronger economic shape after several years than they thought possible on first learning their bases were closing.

While recognizing that predictions of economic calamity from previous BRAC rounds often proved overestimated, coping with the closure in the short term and revitalizing communities over the long haul can be daunting tasks. Not all communities recover, and for those that do, the recovery can be uneven.⁸ The Government Accountability Office (GAO) found that many communities in 2005 were still recovering from prior closures. Rural areas in particular can find the loss of a base and the revitalization of their communities especially difficult challenges.⁹ The effects on individuals may also vary. For example, persons who lose jobs in a closure may not have the kinds of skills that are needed by the economic activity generated by the redevelopment. Individuals may relocate to other regions where the jobs they find may not match the wages of the jobs lost. Significant environmental cleanup costs from toxic

⁸ The Government Accountability Office (GAO) has monitored the BRAC process since 1988. Part of that effort has been to assess how communities fared since a base was closed or realigned. Using data on the number of jobs recovered, unemployment rates, and per capita income, the GAO concluded that nearly 70% of jobs lost to base closings between 1988 and 1995 had been recovered by 2004. See Government Accountability Office, *Military Base Closures: Updated Status of Prior Base Realignments and Closures*, GAO-05-138, January 5, 2005, at [<http://www.gao.gov/new.items/d05138.pdf>].

⁹ In counties where military bases closed between 1969 and 1988, two-thirds of the communities regained as many civilian jobs as were lost. However, rural (i.e., non-metropolitan) base-closing counties lost more than twice as large a proportion of total county employment through civilian on-base job cuts as did metro base-closing counties. See Peter L. Sternberg and Thomas D. Rowley, "A comparison of military base closures in metro and nonmetro counties," *Government Finance Review*, October 1993.

elements on bases can delay the transfer of the base to local authorities and limit the kinds of redevelopment options available to a community.¹⁰

Planning for Economic Redevelopment. In some respects, a closed military base shares similarities with other closed industrial facilities such as steel mills, oil refineries, or port facilities. Research and previous economic development experience suggest that converting a closed military base into a source of new competitive advantage is a major community effort, but that research also shows that the closure sometimes represents an opportunity for the affected community. Bases closed in earlier BRAC rounds have been successfully redeveloped into manufacturing facilities, airports, and research laboratories. Bases also may hold certain advantages for redevelopment that are not shared by other industrial sites. Pricing for the closed bases might be steeply discounted and liability for environmental protection indemnified. Federal grants and incentives also exist to aid community redevelopment efforts.¹¹

Once a base is slated for closing, consideration of property transfer mechanisms, the extent of environmental cleanup necessary, and a realistic base reuse plan for the transferred property become central elements in organizing the economic development process. The Office of Economic Adjustment (OEA), located in the Office of the Assistant Secretary of Defense for Economic Security in the Department of Defense, is a resource available to communities seeking assistance in managing the impact of a base closing or realignment. The OEA awards planning grants to communities and also provides technical and planning assistance to local redevelopment authorities. By 2002, a cumulative \$1.9 billion in Department of Defense and other federal funds had been expended to assist communities affected by base closures.¹² Two potentially relevant OEA publications for local communities are:

- *Renaissance: New Jobs, New Uses of Space and Resources, New Life for Former Military Bases*
- *Community Guide to Base Reuse* ([\[http://www.acq.osd.mil/es\]](http://www.acq.osd.mil/es))

With the wide variety of economic circumstance in the local areas and usable facilities left behind, there is no single template for redeveloping a closed military base. One generality that might be applied to almost all cases, however, is that the sooner economic redevelopment can begin after base closure, the better for local communities.

¹⁰ For a discussion of the particular issues surrounding environmental cleanup on military bases, see Governmental Accountability Office, *Military Bases Closures: Overview of Economic Recovery, Property Transfer, and Environmental Cleanup*, GAO-01-1054T, August 28, 2001, at [\[http://www.gao.gov/new.items/d011054t.pdf\]](http://www.gao.gov/new.items/d011054t.pdf); and CRS Report RS22065, *Military Base Closures: Role and Costs of Environmental Cleanup*.

¹¹ In response to protracted negotiations over property values in many communities, Congress created the “No Cost Economic Development Conveyance” and a “No Cost Rural Economic Development Conveyance” to convey the bases to local redevelopment authorities at virtually no cost. (National Defense Authorization Act of 2000, P.L. 106-65). The 2005 BRAC legislation requires the Department of Defense to seek fair market value for the property, but does permit the Secretary to convey the bases at no cost for economic development.

¹² Government Accountability Office, *Military Base Closures: Updated Status of Prior Base Realignments and Closings*, GAO 05-138, January 5, 2005.

Base closure can be economically very difficult for a community, but closure with a long lag in which the closed base is essentially a hole in the local economy is worse. While many factors can delay the economic redevelopment of a closed base, the most common may be the need for environmental cleanup of the closed property.

Environmental Cleanup. Except for limited circumstances, property from a closed military base must be cleaned of environmental contamination before being transferred for redevelopment. The degree of cleanup and the timetable for completion, however, is left to the Department of Defense (DOD), which is operating under the appropriations approved by Congress. Because of the magnitude of costs involved and the time involved in cleaning up environmental damage once funds are allocated, cleanup times can be lengthy.¹³ Approximately 10% of property from bases closed in prior BRAC rounds has yet to be cleaned for transfer.¹⁴ A complicating factor in the cleanup process can be the different levels of cleanup that might be completed. Land intended for use as housing or schools, for example, must be cleaned to a greater degree than land intended for industrial use. DOD, however, is not legally required to clean land past the point needed for industrial use. When a community desires an ultimate land use that would require a greater level of cleanup than that done by DOD, this may result in a property being left vacant until either another use is found or until additional cleanup is done.

In general, previous base closures suggest that communities face many specialized challenges, but there is little strong evidence that the closing of a base is the definitive cause of a general economic calamity in local economies.¹⁵ On the other hand, many rural areas may experience substantially greater and longer-term economic dislocation from a base closing than urban and suburban areas. Rural areas with less diversified local economies may be more dependent on the base as a key economic asset than urban/suburban economies. Communities where bases are recommended for significant expansion can also find the effects of growth a major challenge. Over the five- to six-year phasing out of a base, however, successful property transfer to a local redevelopment authority, environmental cleanup, and widespread community commitment to a sound base reuse plan have been shown to be crucial elements in positioning communities for life without a military base.

¹³ Total cleanup costs remaining from the previous BRAC rounds have been estimated by CRS using DOD data at \$3.6 billion. See CRS Report RS22065, *Military Base Closures: Role and Costs of Environmental Cleanup*.

¹⁴ Government Accountability Office, *Military Base Closures: Updated Status of Prior Base Realignment and Closures*, GAO-05-138, January 2005. See pp. 10-19.

¹⁵ A study by the RAND Corporation of the effect on communities of three base closures in California (Castle Air Force Base, George Air Force Base, and Fort Ord) found that the impacts, while not benign, were also not the nightmare that many had feared. The study, however, could be faulted on the grounds that the research was done before the base closures were completed, and thus the impact was understated. See M. Dardia, K. F. McCarthy, J. Malkin, and G. Vernez, *The Effects of Base Closures on Local Communities: A Short Term Perspective* (Santa Monica: RAND Corporation, 1996).