MILITARY BASE CLOSURES

DOD's Updated Net Savings Estimate Remains Substantial

July 2001
July 31, 2001

The Honorable Vic Snyder
House of Representatives

Dear Mr. Snyder:

Through four rounds of base closures and realignments in 1988, 1991, 1993, and 1995, the Department of Defense expected to reduce its domestic infrastructure and provide needed dollars for high priority programs such as weapons modernization. Although the Department projects it will realize significant recurring savings from the closure and realignment actions, as noted in your request, many members of Congress continue to raise questions as to how much, if any, money has been saved through the base closure process. This issue takes on increased importance as the Department considers the need for additional base closures.

We have examined costs and savings associated with the base closure process in recent years. In two reports issued in late 1998, we concluded that net savings from the four closure rounds were substantial but that the cost and savings estimates used to calculate the net savings were imprecise. The Department calculated net savings by deducting the reported costs to implement closure actions from reported savings achieved through the elimination or reduction of personnel and base operations and the cancellation of planned military construction projects. Reviewing the Department’s data, we found that cost estimates did not include all costs attributable to the closures and that savings estimates were not routinely updated in the Department’s records. Since that time, the Department has revised its estimates; and its data indicate that net savings have increased.

As agreed, this report addresses the basis for the Department’s recent increase in net savings projected to be realized from the closure process. In addition, we summarized others and our previous observations on the basis for savings from base closure and realignment actions and the precision of the cost and savings estimates. We are continuing to examine

cost and savings issues as part of a broader review intended to provide updated information on the status of the four rounds, as closure authority for the last round expires this year. We expect to issue an overall status report in early 2002.

Results in Brief

Department of Defense fiscal year 2001 budget request and documentation\(^2\) show that it now expects net savings of about $15.5 billion through fiscal year 2001 and about $6.1 billion in annual recurring savings thereafter, an increase from the $14.2 billion and about $5.6 billion, respectively, the Department reported in fiscal year 1999.\(^3\) While cost and savings estimates fluctuate over time based on changes within base closure funding (e.g., environmental and military construction), our analysis of the data showed that the net savings increase through fiscal year 2001 was due primarily to an overall reduction of about $723 million in reported costs and an increase of about $610 million in expected savings resulting from the closure actions. Specifically, almost 50 percent, or about $359 million, of the reported cost reduction was attributable to lower environmental restoration costs through fiscal year 2001. Over 86 percent, or about $526 million, of the total reported savings was attributable to increased savings in base operation and maintenance activities. A $101 million increase in the reported post-implementation savings through fiscal year 2001 resulted from using an inflation factor to convert savings into fiscal year 2001 dollars.

Our work has consistently affirmed that the net savings for the four rounds of base closures and realignments are substantial and are related to decreased funding requirements in specific operational areas. In addition to our audits, reviews by the Congressional Budget Office, the Department of Defense Inspector General, and the Army Audit Agency have affirmed that net savings are substantial after initial investment costs are recouped. However, those same reviews also showed that the estimates are imprecise and should be viewed as a rough approximation of the likely savings. That perspective applies as well to the Department’s updated net savings estimate. At the same time, arguments can be made that net

\(^2\) The fiscal year 2002 budget request was not available at the time we completed this review.

\(^3\) The annual recurring savings estimate excludes an estimated $3.4 billion in environmental costs beyond fiscal year 2001. However, because these costs are spread over many years, they have relatively limited impact on DOD’s annual savings estimate.
savings could be more or less than reported by the Department. For example, net savings could be viewed as greater than reported by the Department if one considers that the majority of environmental restoration costs attributed to the closures would have occurred, but most likely at a slower pace, even if the bases would have remained open. Further, new facility construction at many receiving bases, while funded by the base closure account, reduced the need for other capital funding investments that would have been needed to address issues of an aging and deteriorating infrastructure. On the other hand, reported costs attributable to the closure rounds do not include federal government expenditures of over $1.2 billion incurred by agencies in assisting communities and employees impacted by the base closure process. While these costs do not significantly reduce overall savings, they are one-time costs that, if reported as closure-related costs, increase the time required for savings to fully offset costs.

Background

In the late 1980s, changes in the national security environment resulted in a Defense infrastructure with more bases than the Department of Defense (DOD) needed. To enable DOD to close unneeded bases and realign others, Congress enacted base closure and realignment (BRAC) legislation that instituted base closure rounds in 1988, 1991, 1993, and 1995. For the 1991, 1993, and 1995 rounds, special BRAC Commissions were established to recommend specific base closures and realignments to the President, who, in turn sent the Commissions’ recommendations and his approval to Congress. A special commission was also established for the 1988 round that made recommendations to the Committees on Armed Services of the Senate and House of Representatives. For the 1988 round, legislation required DOD to complete its closure and realignment actions by September 30, 1995. For the 1991, 1993, and 1995 rounds, legislation required DOD to complete all closures and realignments within 6 years from the date the President forwarded the recommended actions to the Congress.4

BRAC has afforded DOD the opportunity to reduce its infrastructure and free funds for high priority programs such as weapons modernization and force readiness. As the closure authority for the last round expires in fiscal year 2001, DOD has reported reducing its domestic infrastructure by about

4 Property disposal and environmental cleanup actions may continue beyond the 6-year period.
20 percent and saving billions of dollars that would otherwise have been spent supporting unneeded infrastructure. In essence, reported savings include both distinct savings that actually occur during the budget year or years a BRAC decision is implemented and cost avoidances during future years—costs that DOD would have incurred if BRAC actions had not taken place. Some of the savings are one-time, such as canceled military construction projects. The vast majority of BRAC savings represent a permanent and recurring avoidance of spending that would otherwise occur, such as for personnel. Over time, the value of the recurring savings is the largest and most important portion of overall BRAC savings.

DOD reports its BRAC cost and savings estimates to the Congress on a routine basis as part of its annual budget requests. In preparing the estimates, DOD guidance to the military services and defense agencies states that the estimates are to be based on the best projection of what savings will actually accrue from approved realignments and closures. In this regard, prior year estimated savings are required to be updated to reflect actual savings when available.

The Congress recognized that an up-front investment was necessary to achieve BRAC savings and established two accounts to fund certain implementation costs. These costs included (1) relocating personnel and equipment from closing to gaining bases, (2) constructing new facilities at gaining bases to accommodate organizations transferred from closing bases, and (3) remedying environmental problems on closing bases. DOD, in its annual budget request, provides the Congress with estimated cost data relative to the implementation of each BRAC round. For the most part, these estimated costs are routinely updated as they are recorded on an ongoing basis in DOD’s financial accounting systems.

Since we last reported on this issue in December 1998, DOD has increased its net savings estimate for the four BRAC rounds. DOD now estimates a net savings of about $15.5 billion through fiscal year 2001, an increase of $1.3 billion from the previously reported $14.2 billion. DOD data suggest that cumulative savings began to surpass cumulative costs in fiscal year 1998. The increase in net savings is attributable to a combination of lower estimated costs and greater estimated savings, as reported in DOD’s fiscal

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There are two BRAC accounts. BRAC I was established to fund base closure in the 1988 round. BRAC II was established to fund base closures in the 1991, 1993, and 1995 rounds.
year 2001 budget request and documentation. Overall, DOD has reduced its cost estimates from fiscal year 1999 to fiscal year 2001 for implementing BRAC by about $723 million and increased its savings estimates by about $610 million, resulting in a net savings increase of $1.3 billion. Table 1 summarizes the cumulative cost and savings estimates through fiscal year 2001 for the four BRAC rounds as reflected in DOD's fiscal years 1999 and 2001 BRAC budget requests and documentation, along with associated changes in the various costs and savings categories. In addition to the estimates shown in table 1, DOD now reports annual estimated recurring savings of $6.1 billion beyond fiscal year 2001, an increase from approximately $5.6 billion that DOD reported in fiscal year 1999.

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6 The fiscal year 2002 budget request was not available at the time we completed this review.
Table 1: Cumulative Cost and Savings Estimates for the Four BRAC Rounds as Reflected in DOD's Budget Requests and Documentation for Fiscal Years 1999 and 2001

<table>
<thead>
<tr>
<th>Costs through FY 2001</th>
<th>FY 1999 budget request</th>
<th>FY 2001 budget request</th>
<th>Total change</th>
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<tr>
<td>Military construction</td>
<td>$6,566</td>
<td>$6,667</td>
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<td>Family housing</td>
<td>93</td>
<td>93</td>
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<tr>
<td>Environmental</td>
<td>7,337</td>
<td>6,978</td>
<td>(359)</td>
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<td>Operation and maintenance</td>
<td>7,984</td>
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<td>Military personnel-permanent change of station</td>
<td>175</td>
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<tr>
<td>Estimated land revenues</td>
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<td>(300)</td>
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<tr>
<td>Other</td>
<td>847</td>
<td>847</td>
<td>(1)</td>
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<td>Sub-total costs (through FY 2001)</td>
<td>$22,881</td>
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<td>($723)</td>
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<th>Savings through implementation period</th>
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<tr>
<td>Military construction</td>
<td>$965</td>
<td>$965</td>
<td>$0</td>
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<tr>
<td>Family housing-construction</td>
<td>177</td>
<td>177</td>
<td>0</td>
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<tr>
<td>Family housing-operations</td>
<td>658</td>
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<td>Operation and maintenance</td>
<td>10,583</td>
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<td>Military personnel</td>
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<td>0</td>
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<td>Other</td>
<td>4,601</td>
<td>4,591</td>
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<td>$22,722</td>
<td>$509</td>
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<th>Post-implementation savings (through FY 2001)</th>
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<td>Sub-total savings (through FY 2001)</td>
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<td>$37,676</td>
<td>$610</td>
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<th>Net cumulative savings (through FY 2001)</th>
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<tr>
<td>Sub-total savings (through FY 2001)</td>
<td>$14,185</td>
<td>$15,518</td>
<td>$1,333</td>
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Note: Totals may not add due to rounding.

These savings begin the year after the implementation period for each BRAC round, are cumulative estimates up to fiscal year 2001, and are usually based on estimated savings during the last implementation year for each round.

Net cumulative savings consist of total savings less total costs through fiscal year 2001.

Source: Our analysis of DOD data.

As shown in table 1, the cost estimates for implementing the four BRAC rounds have decreased by about $723 million from $22.9 billion to $22.2 billion with most of the decrease, or about $359 million, attributable to lower reported environmental restoration costs through fiscal year 2001. Our analysis of the data shows that most, or about $313 million, of the environmental cost reduction occurred in the Navy BRAC account. Some of this can be attributed to shifting planned actions to future years.
Further, estimated revenues generated from actions—such as land sales, property leases, and other reimbursements—have increased by $180 million to $300 million, thereby increasing the offset to BRAC program cost estimates. According to the Air Force, its increased revenues resulted from the reporting of reimbursements received from the city of Chicago, Illinois, for the cost of moving an Air National Guard unit from O'Hare International Airport to Scott Air Force Base, Illinois, and from increased proceeds from land sales and property leases.

In addition to reductions in estimated costs, DOD is reporting over $610 million in additional estimated savings through 2001 in its closure accounts. Our analysis shows that more than half, or $381 million, of the $610 million increase in savings shown in table 1 is attributable to Air Force operation and maintenance. Air Force officials told us that the savings increase was attributable to actions at two bases—McClellan Air Force Base, California, and Kelly Air Force Base, Texas. While the Air Force did not provide an estimate for savings at these two bases in its fiscal year 1999 budget request because of uncertainties regarding the performance of the bases' workloads, it reported a $381 million savings estimate in its fiscal year 2001 budget request. Further, an additional $101 million in increased savings is due primarily to inflationary adjustments in the estimated post-implementation savings for the 1988, 1991, and 1993 rounds through fiscal year 2001. Post-implementation savings for the 1995 round do not begin accruing until fiscal year 2002.

In addition to the revisions made to the cost and savings estimates through fiscal year 2001, DOD has also revised its annual recurring savings estimate for fiscal years 2002 and beyond. DOD is now projecting annual recurring savings of $6.1 billion for the four BRAC rounds, an increase of approximately $500 million from the $5.6 billion DOD reported in fiscal year 1999. Our analysis shows that the increase is attributable equally to an increase in the BRAC 1995 round savings estimate and to a reported increase in prior rounds' recurring savings caused by using an inflation factor to convert them into current year dollars.

Observations on Basis and Precision of BRAC Cost and Savings Estimates

Our prior work, along with work by others including the Congressional Budget Office, the DOD Inspector General, and the Army Audit Agency, has shown that BRAC savings are real and substantial, and are related to cost reductions in key operational areas as a result of BRAC actions. At the same time, limitations have existed in DOD’s efforts to track actual costs and savings over time, which limits the precision of its net savings estimate.
Audits of BRAC financial records have shown that BRAC has enabled DOD to save billions of dollars, primarily through the (1) overall elimination or reduction of base support costs at specific installations, (2) elimination or reduction of military and civilian personnel costs, and (3) cancellation of military construction and family housing projects at closed or realigned bases.

Our prior work as well as work of others has shown that eliminating or reducing base support costs at closed or realigned bases is a major contributor to generating BRAC savings. Savings are realized through a number of actions, such as terminating physical security, fire protection, utilities, property maintenance, accounting, payroll, and a variety of other services that have associated costs linked specifically to base operations. For example, as stated in an April 1996 report, our analysis of the operation and maintenance costs at eight closing installations from the 1988 and 1991 rounds indicated that base support costs had been reduced and that annual recurring savings would be substantial—about $213 million—after initial costs were recouped.7 DOD Inspector General and Army Audit Agency reports have also shown base support reductions at closing and realigning facilities as real and substantial, although not precise. The DOD Inspector General, in affirming savings for a sample of bases in the 1993 BRAC round, consistently found that the services had significantly reduced their operating budgets because of the closure process.

The elimination or reduction of military and civilian personnel at closed or realigned bases is also a major contributor to generating savings. In an April 1998 report, DOD estimated that about 39,800 military personnel and about 71,000 civilian positions had been eliminated by BRAC, resulting in an overall recurring savings of about $5.8 billion annually.8 While we were not able to precisely reconcile these estimated reductions with actual BRAC-related end strength reductions in the services, we reported that the large number of personnel reductions was a significant contributor to the substantial savings achieved through BRAC.9 DOD Inspector General and

7 Military Bases: Closure and Realignment Savings Are Significant, but Not Easily Quantified (GAO/NSIAD-96-97, Apr. 8, 1996).
Army Audit Agency reports have validated personnel savings at various BRAC locations, although the savings estimates were not well documented in many cases. In other cases, the personnel reductions were greater than estimated. For example, in a review of nine 1995 BRAC bases, the Army Audit Agency found that, in contrast to no savings being identified for the elimination of civilian personnel authorizations at tenant activities providing support to BRAC bases, over $13 million in net recurring savings had accrued.\textsuperscript{10}

Additionally, the cancellation of planned military construction of facilities and family housing at closed or realigned bases contributes to the savings generated from BRAC. Prior DOD Inspector General and Army Audit Agency reports have affirmed savings attributable to such cancellations. For example, in a May 1998 report, the DOD Inspector General reported that, after a review of a Navy-reported savings of about $205 million from cancelled military construction projects in the 1993 round, the savings were actually $336 million, or $131 million more than reported.\textsuperscript{11}

Finally, as we reported in 1998, DOD, as part of its budgeting process, has subtracted projected BRAC savings from the expected future cost of each service’s funding plans in the Future Years Defense Program.\textsuperscript{12}

### Limitations in Precision of Cost and Savings Estimates

While our work has consistently shown that savings from BRAC actions are expected to be substantial, we have also noted the cost and savings estimates are imprecise. This relates to the development of initial estimates and efforts to track changes in these estimates over time.

While cost estimates are routinely updated and tracked in financial accounting systems, they are based on DOD obligations\textsuperscript{13} and not actual outlays, thereby adding a degree of imprecision to the actual costs and the


\textsuperscript{12} The Future Years Defense Program is an authoritative record of current and projected force structure costs and personnel levels approved by the Secretary of Defense. See Military Bases: Status of Prior Base Realignment and Closure Rounds (GAO/NSIAD-99-36, Dec. 11, 1998), p. 39.

\textsuperscript{13} Our prior work indicates that obligational data do not necessarily reflect final costs.
basis for savings projections.\textsuperscript{14} Also, as we have previously reported, a fundamental limitation in DOD's ability to identify and track savings from BRAC closures and realignments is that DOD's accounting systems, like all accounting systems, are not oriented to identifying and tracking savings.\textsuperscript{15} Savings estimates are developed by the services at the time they are developing their initial BRAC implementation budgets and are reported in DOD's BRAC budget justifications. Because the accounting systems do not track savings, updating these estimates would require a separate tracking method or system.

Our prior work has shown that the savings estimates have been infrequently updated and, unlike for estimated costs, no method or system has been established to track savings on a routine basis. Over time, this contributes to imprecision as the execution of closures or realignments may vary from the original plans. Further, because arguments can be made as to what costs or savings can be definitely attributed to BRAC, such as environmental restoration costs, the precision of the estimates comes into question. Nevertheless, we and others have consistently expressed the view that these factors are not significant enough to outweigh the fact that substantial savings are being generated from the closure process.

In reports issued in November and December 1998, we concluded that, while closure and realignment savings for the four BRAC rounds would be substantial after initial costs were recouped, the estimates were imprecise.\textsuperscript{16} In particular, we cited that savings estimates were not being routinely updated and that federal economic assistance costs of over $1 billion that had been provided to communities and individuals impacted by BRAC were not included in DOD's reported costs.\textsuperscript{17} Those economic assistance costs now exceed $1.2 billion. While the inclusion of these costs

\textsuperscript{14} The results of our most recent financial audit at DOD show that the Department does not have the systems and processes in place to capture required cost information. See \textit{DOD Financial Management: Integrated Approach, Accountability, and Incentives Are Keys to Effective Reform} (GAO-01-681T, May 8, 2001), p. 5.

\textsuperscript{15} \textit{Military Bases: Lessons Learned From Prior Base Closure Rounds} (GAO/NSIAD-97-11, July 25, 1997.)


\textsuperscript{17} A number of federal agencies—DOD's Office of Economic Adjustment, the Department of Commerce's Economic Development Administration, the Department of Labor, and the Department of Transportation's Federal Aviation Administration—have provided financial assistance to communities and individuals affected by BRAC actions.
as attributable to BRAC has the effect of delaying the point at which savings surpass costs, it does not negate the fact that the savings are substantial.

A July 1998 Congressional Budget Office report also indicated substantial BRAC savings, even though there was imprecision in DOD's cost and savings estimates. In its comments on cost estimates, the Congressional Budget Office cited that not all BRAC-related costs are included in the estimates. As we had also pointed out, the Budget Office cited federal economic assistance costs as not being included in the estimates. Further, the Budget Office pointed out that operating units sometimes had borne unexpected costs when services at DOD facilities were temporarily impacted by BRAC actions. As to savings, the Congressional Budget Office stated its belief that DOD's estimate of $5.6 billion in annual recurring savings at that time was reasonable, given that the Budget Office's estimate was about $5 billion annually.

DOD Inspector General reports also pointed out substantial BRAC savings, despite imprecision in cost and savings estimates. In its May 1998 report of more than 70 closed or realigned bases during the 1993 BRAC round, the Inspector General found that, for the 6-year implementation period for carrying out the BRAC Commission's recommendations, the savings would overtake the costs sooner than expected. While DOD's original budget estimate indicated costs of about $8.3 billion and annual recurring savings of $7.4 billion during the implementation period, the Inspector General concluded that costs potentially could be reduced to $6.8 billion and that savings could reach $9.2 billion, a net savings of $2.4 billion. The Inspector General's report indicated that the greater savings were due to such factors as reduced obligations that were not adjusted to reflect actual disbursements, canceled military construction projects, and a lower increase in overhead costs at bases receiving work from closing bases. On the other hand, an Inspector General's review of 23 bases closed during the 1995 BRAC round noted that savings during the implementation period were overstated by $33.2 million, or 1.4 percent, and costs were overstated by $28.8 million, or 4.5 percent of initial budget estimates.


Also, the Army Audit Agency, in a July 1997 report on BRAC costs and savings, concluded that savings would be substantial after full implementation for ten 1995 BRAC round sites it had examined but that estimates were not exact. For example, the Agency reported that annual recurring savings beyond the implementation period, although substantial, were 16 percent less than the major commands' estimates.

The difficulty in precisely identifying savings is further complicated if one considers the specific actions being undertaken under the BRAC process. For example, while environmental restoration costs are a valid BRAC expenditure, DOD reported that the vast majority of its BRAC environmental restoration costs would have been incurred whether or not an installation is impacted by BRAC. DOD acknowledges, however, that environmental costs under the BRAC process may have been accelerated in the shorter term. Others suggest that in some instances BRAC-related environmental cleanup may be done more stringently than would have been the case had the installation remained open. However, the marginal difference is not easily quantified and depends largely on the end use of the closed installation. To the extent that much of the environmental cost is not considered as an additional cost to DOD, this has the effect of increasing net savings, especially considering that DOD estimates $7 billion in BRAC-related environmental costs through fiscal year 2001. DOD also expects to spend $3.4 billion in environmental costs beyond fiscal year 2001. This is a $1 billion increase over the $2.4 billion environmental cost estimate DOD reported in fiscal year 1999. According to DOD officials, this increase is attributable primarily to the inclusion of cleanup costs for unexploded ordnance, the refinement of cleanup requirements and DOD's cost estimates, and the utilization of more stringent cleanup standards due to changes in the end use of closed installations. While the $3.4 billion in environmental costs is not reflected in DOD's $6.1 billion


22At the same time, uncertainties exist regarding the full cost of environmental restoration beyond fiscal year 2001 because DOD does not have complete and accurate data needed to estimate cleanup costs of unexploded ordnance, such as bombs and ammunition, and other constituent contamination, such as propellants and explosives, on closed training ranges. See Environmental Liabilities: DOD Training Range Cleanup Cost Estimates Are Likely Understated (GAO-01-479, Apr. 11, 2001), pp. 4-6.
annual recurring savings estimate, these costs are spread over many years and should have limited impact on cumulative long-term savings.

A similar case can be made for new military construction at receiving bases under the BRAC process. While significant funds have been expended on new military construction (an estimated $6.7 billion through fiscal year 2001), the military did benefit from the improvement in its facilities infrastructure. While this is somewhat difficult to precisely quantify, it appears that some portion of the cost would have been incurred under DOD's facilities capital improvement initiatives. If so considered, this would also have the effect of increasing net BRAC savings.

Agency Comments and Our Evaluation

In commenting on a draft of this report on July 25, 2001, the Deputy Under Secretary of Defense for Installations agreed with our findings. This official also provided technical clarifications, which we have incorporated as appropriate.

Scope and Methodology

To determine the extent to which cost and savings estimates have changed over time, we compared the data contained in DOD's fiscal year 2001 BRAC budget request and documentation with similar data in the fiscal year 1999 budget request and documentation, which were the latest documents available since we last reported on this issue in December 1998. We noted revisions in the data and identified where major changes had occurred in the various costs and savings categories within the BRAC account. To the extent possible within time constraints, we discussed with officials of the Office of the Secretary of Defense and military services the rationale for those cases where the changes were significant, but we did not independently verify the validity of DOD's reported cost and savings data. We are continuing to examine the basis for the changes in DOD's cost and savings estimates and will discuss the issue in greater detail in an overall status report on BRAC that we expect to issue in early 2002.

To comment on the validity of the net savings estimates, we relied primarily on our prior BRAC reports and reviewed Congressional Budget Office, DOD, DOD Office of Inspector General, and service agency audit reports. As part of our ongoing broader review of BRAC issues, we are examining the extent to which the military services have updated their cost and savings estimates since we last reported on this issue in December 1998. We will discuss that issue in more detail in the status report that we expect to issue in early 2002. In assessing the accuracy of
the cost and savings data, we reviewed the component elements that DOD considered in formulating its overall BRAC savings estimates. Because DOD did not include in its estimates federal expenditures to provide economic assistance to communities and individuals affected by BRAC, we collected these expenditure data from DOD’s Office of Economic Adjustment and considered them in our analysis of the estimated BRAC savings.

We conducted our review in June and July 2001 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Director, Office of Management and Budget. We also make copies available to others upon request.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Key contributors to this report were Mark Little, James Reifsnyder, Michael Kennedy, and Tom Mahalek.

Barry W. Holman, Director
Defense Capabilities and Management
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