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# TRY CIVILIAN SOLUTION

ARMS Can Reverse Base Revenue Drain

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The U.S. Defense Department is engaged in a sweeping review of acquisition strategy with a simple goal: Find new and creative ways to equip, train and field a future military force on an increasingly inadequate budget.

One area where Defense Secretary Donald Rumsfeld is likely to seek savings is in military infrastructure. Like his predecessor, Rumsfeld is said to be leaning toward additional base closures as one way to achieve quick savings and an out-year cost reduction.

However, experience has shown this would be unwise because it would yield neither the desired near-term benefits nor the necessary enhancements to military readiness.

Far from being a windfall to the Defense Department, base closures again would prove to be a costly undertaking, politically contentious and wasteful of an irreplaceable national resource.

Environmental costs, pensions and economic adjustment costs—all part of a military-base closure—become a near-term drain on scarce dollars.

The solution preferred by many reformers is based on the Army's highly successful Armament Retooling and Manufacturing Support (ARMS) Program. For almost 10 years, ARMS has transformed the nation's government-owned, contractor-operated munitions industrial base from one that was wasteful and inefficient to one that boasts higher levels of readiness at reduced cost.

Where once these plants hemorrhaged a total of \$50 million per year, on average, in appropriated funds, they now 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 U.S. history to do so.

The secret is commercialization, or 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.

Evaluations conducted by such independent groups as the international accounting firm of Price-waterhouseCoopers, the Army Audit Agency, the General Accounting Office, Pacific Northwest Laboratory, 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 the cost of government production in ways impossible under the base closure process.

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

Using the ARMS model, service secretaries now can offset the cost of asset ownership by transforming real property and equipment into a perpetual revenue stream. 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 unfounded base maintenance and repair.

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

- Attracting 187 tenants
- Creating more than 5,000 jobs on site and 25,000 in the surrounding communities.
- Leveraging more than \$171 million in private investment.
- Generating more than \$2.1 billion in local economic benefits.
- Reducing ammunition production costs by 60 percent
- Returning revenue to the Army of \$197 million from 1994-2001.
- Preserving more than 25 critical war production skills.

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

Using ARMS as a starting point, out-year requirements would halt disposing of, or declaring government bases and industrial facilities as excess, until a careful evaluation is done of its revenue-generating potential.

In keeping with General Accounting Office 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 down overhead costs by leveraging the asset value of government holdings in the marketplace. Instead of additional base closure rounds or increased appropriations, the goal at most military facilities should be sustainable economic development.

During the next 12 months, the service secretaries should review all existing policies and authorities that encourage or discourage the efficient commercial reuse of DoD assets. Based upon these results, Rumsfeld should approach Congress with a request to make the appropriate statutory changes.

As the new administration begins its deliberations over the future of America's defense infrastructure, it would do well to remember the words of Gil Decker, former assistant secretary of the Army, who wrote in 1996 "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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