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DEFENSE BUDGET

Real Property Maintenance and Base Operations Fund Movements

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Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here today to discuss the findings of our work on the Department of Defense's (DOD) funding of its infrastructure and of activities that directly affect readiness. The National Defense Authorization Act for Fiscal Year 2000 requires us to review the military services' funding and management of real property maintenance and base operations.[1] We have just issued the first in a series of reports in response to that mandate.[2] Our testimony today is based on this report and stems from congressional concerns that funds may be moving away from areas such as training to pay for real property maintenance and base operations. The services' principal source of funding for these functions is their operation and maintenance (O&M) appropriations, and the services have considerable flexibility in using O&M funds.

Today we will discuss (1) the movement of funds to and from real property maintenance and base operations during fiscal years 1994 through 1999, (2) the movement of unit training funds during the same period of time, and (3) the evidence indicating that unit training funds have been moved to pay for base operations and real property maintenance.

SUMMARY

From fiscal years 1994 through 1999, the services moved $7.1 billion dollars into real property maintenance and base operations, bringing the total funding for these activities to $95.7 billion, or 8 percent more than the initial congressional designation of $88.6 billion.[3] The services' movement of funds into and out of unit training varied. The Navy and the Marine Corps consistently moved funds into unit training. The Army moved funds out of unit training from fiscal year 1997 through 1999 (the only years for which comparable Army data is available). The Air Force decreased unit training funds in 1994 and 1995 and increased funding in later years.

While it is not possible to trace the origins of all funds moved into real property maintenance and base operations and to determine the effects of these movements on readiness, DOD reports show that at least some of the funds that the Army and the Air Force moved into these activities came from unit training. DOD's reports to Congress on high-priority readiness-related transfers in fiscal years 1997 and 1998 show that the Army moved $641 million from unit training to real property maintenance and attribute these movements to increased efficiencies in training. The fiscal year 1998 report also shows that the Air Force moved $35 million from unit training to base operations. DOD generally agreed with our analysis and facts as presented in our latest report.

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[1] P. L. 106-65 section 365.

[2] *Defense Budget: Analysis of Real Property Maintenance and Base Operations Fund Movements* (GAO/NSIAD-00-87, Feb. 29, 2000).

[3] We use the term "initial congressional designation" or variations of this term throughout to refer to amounts set forth in an appropriation act's conference report. These recommended amounts are not binding unless they are also incorporated directly or by reference into an appropriation act or other statute.

BACKGROUND

DOD manages more real property than any other entity in the world—more than 320,000 buildings, tens of thousands of miles of roads, and 1.1 million square yards of pavement. Appropriations for operation and maintenance (O&M) provide money to maintain this property, largely through funding for real property maintenance and base operations. DOD uses real property maintenance funds to maintain and repair buildings, structures, warehouses, roadways, runways, railway tracks, and utility plants. Base operations funding is used for services such as utilities, base communications, snow removal, security, and recreation. Unit training and operations funds are used to increase units' proficiency through flying and ground operations training and provide units with resources such as fuel, support equipment, and spare parts for equipment to meet their mission requirements.

The services have a great deal of flexibility to move funds within the O&M funds appropriation. Appendix I of this testimony shows the various ways that DOD can move funds within the O&M appropriation throughout the budget year. Our February 2000 report on O&M fund movements provides additional details on the services' movement of funds.[4]

The House report on the National Defense Authorization Act for Fiscal Year 1996 noted the Committee's concerns over the extent of resources provided for training and maintenance that are moved for other uses and the effects of such movements on readiness.[5] DOD is required[6] to provide detailed data on budget movements for high-priority readiness-related subactivities (budget accounts comprise activities, which consist of activity groups, which are broken down into subactivities). These reports describe movements of funds for some of the subactivities designated as high-priority by Congress and must include the total amounts moved into and out of these subactivities and an explanation of the reasons for the movement.

FUNDS GENERALLY MOVED INTO BASE OPERATIONS AND REAL PROPERTY MAINTENANCE

To identify the movement of funds into and out of real property maintenance and base operations, we compared initial congressional designations with the services' reported obligations for fiscal years 1994 through 1999. We found that the services' reported obligations were $7.1 billion (8 percent) more than the initial congressional designations of $88.6 billion. Table 1 shows the difference for each of the services.

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[4] *Defense Budget: DOD Should Further Improve Visibility and Accountability of O&M Fund Movements* (GAO/NSIAD-00-18, Feb. 9, 2000).
[5] House Report 104-131, p.150 (1995).
[6] 10 U.S.C. 483.

Table 1: Net Differences Between Initial Congressional Designations and Reported Obligations for O&M Base Operations and Real Property Maintenance (fiscal years 1994-99)

Current dollars in millions

Service	Initial congressional designations[a]	Reported obligations	Increase over congressional designations	
				Percent increase
Army	$31,511.8	$34,088.0	$2,576.2	8.2
Navy[b]	21,798.4	22,114.5	316.0	1.4
Marine Corps	6,036.0	6,454.4	418.5	6.9
Air Force	29,241.5	33,069.2	3,827.7	13.1
Total	**$88,587.7**	**$95,726.1**	**$7,138.5**	**8.1**

Note: Amounts may not total due to rounding.

[a]Initial congressional designation as reported in appropriations acts' conference reports.

[b]Navy officials indicated that for the fiscal year 1999 reported obligations, not all base operations and real property maintenance funds were accounted for in the table. This was due to the Navy restructuring these accounts after the initial congressional designation had been made. Some functions such as those associated with equipment maintenance for communication antennas, which were formerly considered as base operations and real property maintenance, are no longer accounted for under those subactivities.

Source: Our analysis based on congressional appropriations acts conference reports and DOD's O&M budget data.

In 1996, the services separated base operations from real property maintenance in their budget structures. We were thus able to analyze the changes in funding for these two functions separately from 1996 through 1999. During this period, the services' reported obligations were $2.7 billion (4.5 percent) more for base operations and real property maintenance than the initial congressional designation of $61.2 billion. Most of this increase (about $2 billion, or 73 percent) was for base operations functions.

MOVEMENTS OF SERVICES' UNIT TRAINING FUNDS VARIED

In our recent report, we analyzed the movement of funds into and out of unit training during fiscal years 1994 through 1999 and found that these movements varied by service. The Army (which does not have comparable data for fiscal years 1994-96) moved funds out of training in 1997-99; the Air Force moved funds out of training in 1994-95 but then reversed this trend and moved funds into training in 1996-99; the Navy and the Marine Corps consistently moved funds into training.

- The Army obligated $1.1 billion (12 percent) less than initially designated for unit training in fiscal years 1997-99.

- The Air Force obligated $400 million (3 percent) less than initially designated for unit training in fiscal years 1994-95, then obligated $2.6 billion (10 percent) more in fiscal years 1996-99.
- The Navy and the Marine Corps obligated a total of $2.1 billion (8 percent) more for unit training than their combined initial designations for fiscal years 1994-99.

The effect of these fund movements on readiness is not measurable. DOD data on the movement of O&M funds is limited. However, we reviewed DOD's high-priority readiness-related transfer reports for fiscal years 1997 and 1998 and found instances in which the Army and the Air Force moved unit training funds into base operations and real property maintenance. The reports show that the Army moved a total of $641 million from unit training to real property maintenance and base operations and attribute the movements of these funds to increased efficiencies in completing unit training. The fiscal year 1998 report also shows that the Air Force moved $35 million from training to base operations and notes that commanders increased real property maintenance funding by about $155 million, without citing the source of those funds.

It should be noted that these reports are limited in that they show only fund movements and do not address the impact of these movements, other than financial ones. In our future work we will further explore the availability of data to help assess the impact of O&M fund movements on readiness.

In conclusion, we would like to note that we will continue to address the remaining areas of interest cited in the 2000 Defense Authorization Act and will try to shed more light on the relationships between readiness, quality of life, and infrastructure funding. Mr. Chairman, this concludes our statement. We will be happy to respond to any questions that you or the Members of the Committee may have regarding our work.

Contact and Acknowledgments

For future contacts regarding this statement, please contact Neal Curtin on (202) 512-5140. Individuals making key contributions to this statement included Brenda Farrell, Janet Keller, Laura Talbott, Douglas Mills, Janine Cantin, Janine Prybyla, and Stefano Petrucci.

HOW O&M FUNDS CAN BE MOVED

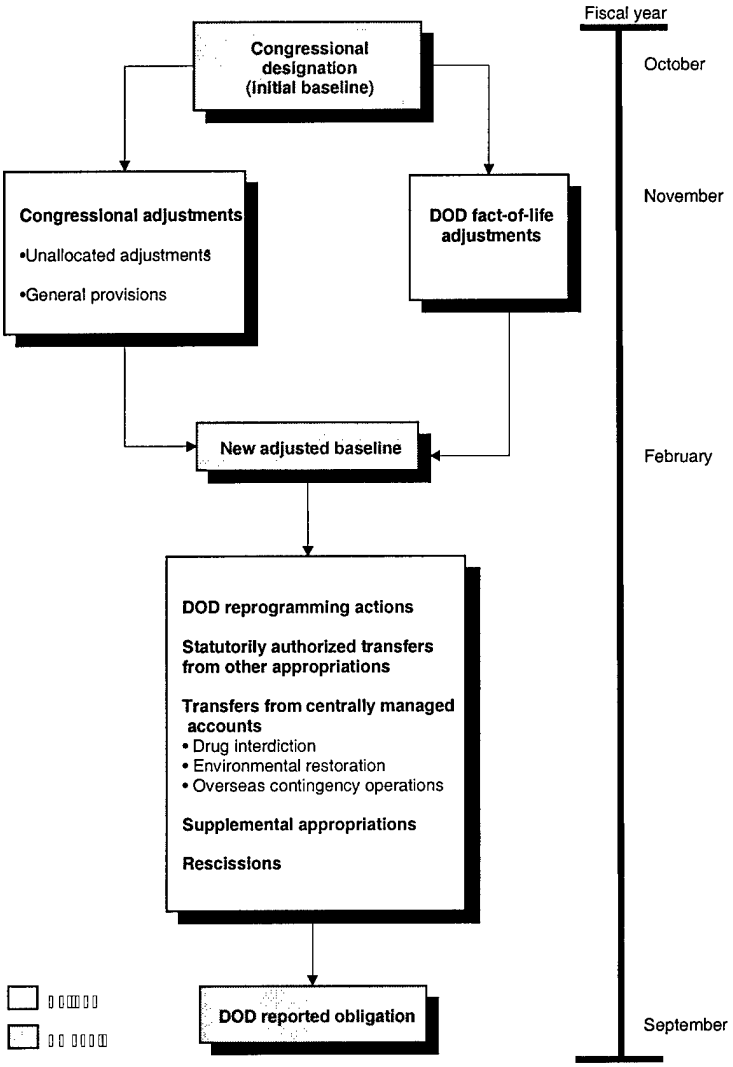
DOD has considerable flexibility in using O&M funds and can move them in several ways. As shown in figure 1, after the initial appropriation is made, DOD can adjust funding through

- adjustments directed by Congress in conference reports on appropriations acts and
- fact-of-life adjustments DOD believes are necessary due to changes, such as unplanned force structure changes, that have occurred since the budget was formulated.

After making these initial fund movements, DOD establishes a new "adjusted" baseline budget. It can then move funds through

- reprogramming actions, to move funds from one budget activity to another within the same account;
- statutorily authorized transfers, to move funds from other Defense appropriations (such as Procurement);
- transfers from congressionally established, centrally managed accounts (such as for overseas contingencies);
- supplemental appropriations that Congress provides for additional expenses during the year; and
- rescissions, through which Congress cancels appropriated funds.

Figure 1: How O&M Funds Are Moved Throughout the Fiscal Year



[a]In the conference report on the appropriations acts, conferees often direct DOD to make changes to its budget baseline. These changes are known as unallocated adjustments and general provisions.

Source: Our depiction, based on Defense Financial Management Regulation DOD 7000.14-R, conference reports on the appropriations acts, and interviews with officials from the Office of the Under Secretary of Defense (Comptroller).

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