

three years, as this option assumes, might mitigate many of the potentially adverse effects of those cutbacks on beneficiaries. That phase-in period would allow physicians some time to understand the variations in clinical practice patterns between HMOs and the military and to modify their behavior accordingly. DoD could support those efforts by expanding existing discussions and working groups, which currently focus on understanding clinical variations among the services, to understanding more far-reaching differences in practice patterns among physicians.

A more serious problem that relates directly to the issue of care is the possibility that the number of eligible military beneficiaries electing to use the military health care system might grow. With more ben-

eficiaries, the problems of excess demand, rationing, and declines in the quality of service would be greater than assumed here, because the number of physicians assumed in this option might not be sufficient to meet HMO staffing patterns for the military.

In view of these uncertainties, this option makes the conservative assumption that beneficiaries receive all of their health care at military medical facilities, though currently they actually receive about 20 percent of their care from civilian providers paid by DoD. Indeed, accounting for the care that beneficiaries receive from civilian providers could lower the number of physicians needed to meet civilian HMO staffing standards by as much as 20 percent--or from the 8,090 assumed here to 6,740.

## DEF-27 REVISE COST SHARING FOR MILITARY HEALTH CARE BENEFITS

| Savings from the<br>1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 210                                     | 200  | 200  | 200  | 200  | 1,000                              |
| Outlays                       | 180                                     | 190  | 200  | 200  | 200  | 970                                |

About 8.2 million people are eligible to use the military health care system. That total includes all men and women on active duty, their spouses and children, and retired military personnel and their dependents and survivors. Those who choose to use this health care system receive most of their care in the military's hospitals and clinics (referred to as the direct care system). When beneficiaries receive care in military facilities, they pay very little. Hospital care costs between \$4.75 and \$9.50 per day for most beneficiaries; retired enlisted personnel pay nothing. Outpatient visits and prescriptions are free of charge for all beneficiaries.

When direct military care is unavailable or inaccessible for dependents and retirees under the age of 65, the Department of Defense reimburses civilian providers through a traditional fee-for-service insurance program, the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Compared with cost-sharing requirements in military facilities, beneficiaries using CHAMPUS generally pay more. For inpatient care, for example, retirees must pay the lesser of \$323 per day for inpatient care or 25 percent of hospital charges. For outpatient care, all users face both a deductible and copayments. The lower charges for military facilities lead to patterns of higher use of health care there and are inequitable to beneficiaries who must rely on civilian providers.

This option would equalize the cost-sharing requirements for outpatient care for all beneficiaries regardless of whether that care is received in a military or civilian setting. As a consequence, this option would address the twin problems of efficiency and equity. New cost-sharing requirements for direct military health care would be modeled after the civil-

ian cost-sharing requirements for the health maintenance organization option proposed under Tricare, the program suggested by DoD for establishing a managed care plan nationwide. Savings could amount to about \$210 million in 1996 and about \$1 billion through 2000 compared with the 1995 plan. Those savings stem from both the revenue generated from increased charges and the reductions in patterns of use by beneficiaries in response to higher cost sharing. Some of those savings, however, would be offset by the cost of modifying existing automated information systems to collect the higher fees.

The principal reason to revise the cost-sharing requirements for the military health care system is to slow the rising costs of providing military health care. Controlling those costs will be possible only if both beneficiaries and providers face improved incentives of the kind incorporated in DoD's Tricare plan for care received in the civilian sector. Implementing that plan for military beneficiaries, however, need not impose onerous requirements on them, because it should improve their access to less expensive care at military medical facilities.

Aside from raising revenue, this option would yield many other benefits. Higher charges for military care would help curb excessive use in military facilities by creating the same incentives for beneficiaries who use the military treatment facilities as for those who use civilian providers. This option would eliminate the inherent inequity of providing more generous health care benefits to people who live near a military hospital or clinic.

There are disadvantages to this option. Because medical care is a key part of military compensation, military families might view increased charges as an

erosion of benefits. That may be of particular concern during a major drawdown of forces, which has already created considerable uncertainty among military families. Recruitment and especially retention could suffer, although enrollment in Tricare would be free, in contrast to the premiums typically required

for enrolling in other medical plans offered to civilian employees in either the federal government or the private sector. Nor should rising charges necessarily harm health, because evidence shows that people at ages and incomes typical of military beneficiaries seek needed care even when they share costs.

DEF-28 CONSOLIDATE PILOT TRAINING AND DELAY BUYING  
THE JOINT PRIMARY AIRCRAFT TRAINING SYSTEM

| Savings from<br>the 1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 200                                     | 370  | 610  | 720  | 810  | 2,710                              |
| Outlays                       | 30                                      | 140  | 350  | 510  | 670  | 1,700                              |

NOTES: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

The Administration has made significant changes to its 1995 plan for this program. See Appendix B for estimated savings compared with the Administration's fiscal year 1996 request.

The United States invests substantial resources in training its military personnel, on the premise that well-trained fighting forces are most likely to win wars quickly with the fewest deaths. To provide personnel with the necessary skills to serve effectively in combat or support units, the services train individuals at various training bases, often in a classroom setting.

With the drawdown in force structure, the total amount of individual training that is needed has dropped substantially. For example, the amount of pilot training, one of the most expensive types of individual training, dropped by half between 1985 and 1995, as measured in training loads, which reflect both the number of students and the length of the course. Based on the amount of training conducted in the past at the 12 flight-training bases in use today, the services together have almost twice as much capacity to train pilots as they need.

The Army, Navy, and Air Force each operate separate training establishments for pilots. Leaders in both the Congress (Senators Goldwater and Nunn) and the Department of Defense (General Powell and Secretary Aspin) have proposed consolidating pilot training. The study of roles and missions that the Joint Chiefs of Staff sent to the Congress in 1993 also recommended consolidating undergraduate training for pilots of fixed-wing aircraft and evaluating the consolidation of training for rotary-wing (helicopter) pilots. Current plans for consolidation, however, call for only a modest exchange program

between the Navy and the Air Force, affecting only some 10 percent of the undergraduate training for pilots of fixed-wing aircraft in 1998. DoD would gradually expand the joint training between 1998 and 2010 as it purchases the new training aircraft--the Joint Primary Aircraft Training System (JPATS)--but it has no plans to consolidate helicopter training.

This option would consolidate undergraduate training of pilots in all services. Capitalizing on similarities in the skills learned during the initial phase of flight training, this option assumes that all Navy and Air Force pilots of fixed-wing aircraft would undergo common core training using the T-34 aircraft, the Navy's current trainer, rather than wait for delivery of the new JPATS trainer. The T-34 is inexpensive to operate and should be available in sufficient numbers to train both Navy and Air Force pilots at least through the middle of the next decade. One service would conduct this training at two bases rather than the four bases used now. At the same time, the Army, Navy, Air Force, and Coast Guard would all conduct their basic helicopter training under one service and in one location, using the current fleet of Navy and Army training helicopters. This option would change the current practice by which all Navy and Marine Corps pilots train initially in fixed-wing aircraft, including those who later become helicopter pilots.

Consolidating the services' pilot training programs and delaying the procurement of JPATS would result in five-year savings of \$2.7 billion compared

with the Administration's 1995 plan. DoD could delay procurement because the Navy's T-34 would be used for most of the Air Force's fixed-wing training. Since the T-34 has many remaining years of service life and the Navy has a sufficient inventory, DoD could delay buying JPATS until early in the next century. In addition, DoD would need to purchase about 120 fewer JPATS aircraft, because Navy and Marine Corps personnel designated as helicopter pilots would no longer initially train in fixed-wing aircraft. Savings from the Administration's 1996 budget would be \$1.6 billion. These savings are lower because the Air Force and Navy have delayed the JPATS program.

Continuing to rely on the T-34 for fixed-wing training and delaying the purchase of JPATS would mean that the Air Force and Navy would not reap the advantages of using a new trainer until a later date. Those advantages include an ejection seat that operates at ground level, a digital cockpit common to aircraft that pilots will later fly, the ability to train at higher altitudes, and a redesigned cockpit to accommodate smaller people, making it easier for women to become pilots. The Air Force considers the T-34 aircraft unacceptable for its training needs, primarily because it lacks those features. Although the T-34 does not have an ejection seat, DoD considers it safe. In addition, if the Air Force individually screened pilots who did not meet physical size requirements, as the Navy does now, about 80 percent of female pilot candidates could train in the T-34. That is the same standard required of the new JPATS aircraft.

Consolidating pilot training could improve training, reduce the size of the training infrastructure, and reduce operating costs. Training jointly could lead to the adoption of "best practices" from each service and foster interservice cooperation, which is increasingly important as the United States turns to joint operations in response to crises. Since all training of a particular type would be conducted at one or two bases, the services would be able to close three or four of the 12 flight-training bases, eventually saving about \$180 million each year. The cost of operating training aircraft would also be lower because the Navy's T-34 costs about half as much to fly as the T-37, the Air Force's current trainer. In fact, jointly conducting initial training would reduce current operating costs by \$10 million annually and would save over \$400 million through 2000 by retiring T-37 aircraft that would no longer be needed. The services could, however, face one-time costs to move aircraft between training bases and to close bases.

The Navy, Marine Corps, and Coast Guard would all object to adopting common helicopter training because they prefer that their helicopter pilots receive initial training in a fixed-wing aircraft. The Navy believes that such training improves its ability to select the highest-quality pilots for fixed-wing fighter training. Recent research suggests, however, that relying on other methods to select fighter pilots would be almost as effective. The Marine Corps and the Coast Guard prefer to train all their pilots in fixed-wing aircraft initially because a few of their pilots fly both fixed- and rotary-wing aircraft. Under this option, those pilots would undergo both types of training.

## DEF-29 REDUCE FUNDING FOR DEFENSE ENVIRONMENTAL PROGRAMS

| Savings from the<br>1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 400                                     | 411  | 423  | 434  | 447  | 2,115                              |
| Outlays                       | 196                                     | 349  | 396  | 416  | 433  | 1,790                              |

Although real defense spending has declined by about 26 percent since 1990, funding for environmental security programs has increased by more than 300 percent. In 1990, the Department of Defense spent \$1.6 billion on environmental programs for cleaning up operational bases and closing military installations, complying with federal and state standards in handling hazardous waste materials, and conducting research and development of environmental remediation technologies. For 1995, the Congress has appropriated \$5.2 billion for those activities--\$400 million less than the Administration requested. The Administration's 1996 plan includes about \$5.1 billion for environmental programs in 1996 and \$22.1 billion over the 1996-2000 period.

Compared with the 1995 plan as modified by the Congress, this option would save \$400 million in 1996 and \$2.1 billion through 2000. Those savings would result from adopting less stringent cleanup standards, reducing management costs, and using new remediation technologies. Such changes in DoD's environmental programs would be consistent with concerns expressed by oversight committees in the Congress.

Despite the recent dramatic increase in funding for environmental programs, DoD has achieved only limited progress in cleaning up the 19,694 contaminated sites on its 1,722 installations. Most of the work to date has involved identifying and characterizing contamination, and little actual cleanup has been accomplished. As of March 1994, the department reported that cleanup activities were complete or under way at about 5 percent of the total number of contaminated sites that require remediation.

The Congress has expressed concern about the lack of progress being made in the cleanup program and--despite the overall growth of funding for cleanup in recent years--has indicated that, in some instances, reductions in funding may be warranted. For example, for 1994 the Congress appropriated about \$350 million less than the department requested for the Defense Environmental Restoration Account (DERA). The House Committee on Appropriations had recommended an even larger cut, concluding that less stringent cleanup standards could provide significant savings. In 1995, House and Senate conferees from the armed services committees authorized \$150 million less than the department requested for DERA. Subsequently, conferees from the appropriations committees cut the defense request further, appropriating about \$1.8 billion--\$400 million less than DoD's request. Legislative efforts to revise the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 could change the cleanup process and standards of remediation. That could significantly affect DoD's current cleanup plans and requirements. Moreover, in the face of such uncertainty, the House Appropriations Committee questioned the department's ability to obligate funds even as appropriated for 1995.

Although adopting less stringent cleanup standards and improving the remediation process would yield savings for DoD, applying more efficient technologies for characterizing and cleaning up contaminated sites could produce even larger savings. The department might achieve near-term savings by revising sampling and analysis practices during the early phases of the cleanup process. For example, a DoD study of five contaminated sites found that the

application of statistical design techniques in sampling to characterize and monitor contamination could save as much as 30 percent compared with the cost of current approaches. In addition, new technologies, such as the Site Characterization and Analysis Penetration System, a type of ground radar, accounted for savings of an additional 7 percent compared with past practices. DoD estimates that the application of these new techniques could save between \$56 million and \$246 million for some 900 sites requiring characterization work. The study also concludes that more effective characterization could save significant costs, perhaps billions of dollars, during the remediation phase.

Savings might also be achieved during the next several years by applying certain new technologies during the remediation phase. For example, the current cost of cleaning contaminated soil by incineration varies from \$350 to \$1,500 per ton. Bioremediation techniques, such as composting, can achieve the same standards at a considerably lower price--between \$100 and \$400 per ton. Recent cleanup work under way at Umatilla Army Depot in Oregon confirms that composting is an effective alternative to incineration.

Application of new technologies for treatment of fuels and solvents in groundwater also has the potential for considerable savings during the next few years. Current technologies such as air stripping and activated carbon adsorption cost between \$5.00 and \$7.50 per 1,000 gallons of contaminated groundwater. The department estimates that by 1996, cross-flow air stripping with catalytic oxidation could reduce costs to as little as \$1.50 per 1,000 gallons.

But the policy changes underlying the estimated savings are not without risk. The savings estimates for site characterization are based on a limited number of samples and may not be achievable for all contaminated sites. Similarly, DoD's estimated savings for applying new technologies during the remediation phase are based on laboratory results and reflect only limited experience in the field.

Also, the potential savings from the application of new technologies during the characterization and remediation phases of cleanup may not be realized as quickly as DoD has estimated. Few of the new remediation technologies are mature enough to be used on a wide scale during the next year or so. Thus, a disproportionate share of the near-term savings assumed in this option may have to be achieved through management changes.

Finally, unless the Congress takes separate legislative action, the possibility of realizing savings by adopting less stringent cleanup standards is subject to the vicissitudes of negotiation among the Department of Defense, the Environmental Protection Agency, and the states. In some cases, such as George and Mather Air Force bases and the Rocky Mountain Arsenal, disagreements among DoD, EPA, and the states occurred and more stringent cleanup standards were eventually adopted. Less stringent standards could be agreed upon in other cases, but in any event, the resulting standards remain a matter for negotiation.

## DEF-30 REDUCE FUNDING FOR DOE'S CLEANUP PROGRAM

| Savings from the<br>1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 600                                     | 620  | 650  | 670  | 690  | 3,230                              |
| Outlays                       | 300                                     | 520  | 630  | 650  | 680  | 2,780                              |

NOTE: The Administration has made significant changes to its 1995 plan for this program. See Appendix B for estimated savings compared with the Administration's fiscal year 1996 request.

The Department of Energy (DOE) is responsible for operating, maintaining, and cleaning up the large complex that develops and produces nuclear weapons. In 1989, the Environmental Restoration and Waste Management (EM) program was created within DOE to oversee and direct all aspects of that cleanup. Since that time, the program's annual budget has more than tripled, from slightly under \$2 billion in 1989 to over \$6 billion in 1995. The Administration has requested more than \$6 billion in budget authority for 1996 and plans to budget a total of about \$30 billion in the next five years. Most of those funds are devoted to defense-related cleanup activities, but approximately 10 percent would be spent on projects not related to national security.

As budget levels for the program remain high, so do concerns regarding the efficiency and feasibility of the program as it is currently structured. This option would reduce spending in this program by 10 percent below the Administration's plan in each year from 1996 through 2000. Savings would be realized by reducing spending for administrative and support functions and by delaying some projects in the environmental restoration program. Relative to the Administration's plan for 1995, savings would be \$600 million in 1996 and a total of \$3.2 billion through 2000. Savings would be \$670 million in 1996 and just under \$3 billion through 2000 relative to the Administration's 1996 plan. Almost 90 percent of those savings would be realized in budget authority in the defense function (050).

One concern voiced both by critics outside DOE and by high-level managers within the department is

that the EM program is not being managed efficiently. Several factors contribute to the perception that significant portions of EM funds are being wasted on unnecessary administrative and support activities. At each of DOE's 15 major sites, a single management and operations (M&O) contractor is responsible for all phases of on-site operations. In some cases, the same contractor is responsible both for weapons production and for cleaning up any wastes resulting from that production. DOE also contracts with an additional firm at many sites for architectural and engineering (A&E) work. Some critics of DOE have argued that this arrangement has led to duplicate layers of bureaucracy and administration as both the M&O and A&E contractors subcontract for the performance of specific tasks. In addition, until recently, contracts between DOE and M&O contractors were subject to less scrutiny than other government contracts, and many contained clauses that were unusually favorable to the contractors. DOE and its predecessors justified those unusual contracting practices based on the unique and secret work performed at the nuclear weapons complex.

Several reviews of the budget for the EM program conducted by both internal and external review teams have found excessive levels of funds devoted to management functions. In the past, the Congress has directed DOE to reduce those costs, and the Assistant Secretary of Energy for EM has acknowledged the potential for savings in this area. Means suggested for achieving such savings include reforming the contracting process, eliminating unnecessary programs or those duplicated elsewhere in the federal

government, and tightening oversight of contractors' performance. DOE has made some effort in the past year to reform its management practices. As a consequence, the Administration's plan for the next five years probably reflects some savings that would result from implementing the reforms. Nevertheless, DOE can probably find additional savings.

Another concern often expressed about DOE's cleanup effort is that in many cases DOE does not have any techniques for effectively cleaning up its contaminated groundwater and soil. A large portion of DOE's funds allotted to remediation are devoted to cleaning up contaminated groundwater, soil, or buildings--tasks that are difficult and expensive to accomplish with today's techniques. At the same time, DOE is investing its own money to develop new techniques to perform those tasks more quickly and cheaply. Delaying remedial actions that are difficult to accomplish with today's techniques until more efficient methods are available could not only save DOE money and time in the long run but also yield budgetary savings in the near term.

By reducing funds dedicated to administrative and support functions and delaying some remediation projects, DOE could achieve significant savings--perhaps on the order of 10 percent--over the next five years. Savings of that magnitude in annual budgets have been discussed by previous reviewers of the EM budget. Moreover, changes sufficient to generate those savings might be acceptable to the many parties involved in cleanup efforts. For example, an agreement signed last year by DOE, the federal Environmental Protection Agency (EPA), and state regulators stipulated that savings of more than 10 percent would be achieved at the Hanford site over the 1994-1998 period.

Reducing total EM funding by 10 percent, however, could cause problems for DOE. Reducing funding for administration and support without specific proposals for realizing savings could hamper execution of the program rather than make it more efficient. Although the Congress does not have direct oversight of administrative costs and so cannot eliminate or reduce them directly, it could mandate savings and instruct DOE to realize them through

better management. Alternatively, it could require DOE to provide the Congress with more information, thus enabling better Congressional oversight.

Reducing funding for remediation programs could also have drawbacks. DOE feels it must proceed with many difficult and expensive remediation projects because it is required to do so by the agreements it has signed with various states and EPA. Those agreements stipulate when DOE must start and finish many cleanup tasks. Delaying projects would require renegotiating at least some of those agreements. Furthermore, some remedial action may be required immediately in order to protect the environment or public health. Finally, if long-term benefits are to result from delaying technically difficult projects, DOE might have to invest additional money in the meantime to develop better technologies to execute the projects more efficiently. Those investments might reduce the savings available under this option unless they can be accompanied by larger cuts in support or other activities.

The budgetary savings estimated in this option are associated with improving the efficiency of the cleanup program in its current structure. Substantial additional savings are possible if the program is fundamentally altered. Such fundamental change could result if the Congress decides to require risk assessment and benefit-cost analysis in setting priorities and determining the goals for cleaning up hazardous waste sites. Such provisions could be included in legislation to reauthorize the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), which governs the Superfund program. In 1994, the Congress considered but did not pass reauthorization of CERCLA.

The magnitude of budgetary savings would depend on the specific requirements set forth by the Congress. Substantial savings could be achieved by accepting lower standards of cleanup on sites destined for industrial use, by postponing action where the risks to workers involved in the cleanup would be high relative to the risks of not cleaning the site but continuing to monitor it, and by allowing greater flexibility in the choice of remedial action.

## DEF-31 INCREASE RELIANCE ON PRIVATE-SECTOR HOUSING FOR MILITARY FAMILIES

| Savings from the<br>1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 670                                     | 670  | 660  | 650  | 620  | 3,270                              |
| Outlays                       | 100                                     | 350  | 520  | 630  | 670  | 2,270                              |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

More than two-thirds of the military families in the United States receive cash housing allowances and either rent or purchase housing in the private sector. The rest (approximately 30 percent) forfeit their cash housing allowances and live in housing units provided by the Department of Defense. DoD's policy is to rely on cash allowances wherever the private sector is able to provide adequate, affordable housing. Nonetheless, CBO projects that the percentage of military families in the United States living in DoD housing will increase from 30 percent to 38 percent between 1990 and 1999. In the long run, that increase means higher costs for DoD because the average annual cost of providing DoD housing (including the amortized cost of construction) is approximately \$11,000 per unit, compared with approximately \$7,000 for housing allowances.

Increased use of DoD housing could also push up costs over the next several years. Most of DoD's U.S. inventory of family housing was built early in the Cold War, when domestic housing was in short supply and when DoD first faced the task of rotating a large standing army between assignments in the United States and overseas. Those housing units are near the end of their service life. Significant budgetary savings are possible in the near term if, rather than replace or revitalize its existing stock, DoD retired those aging units and relied more on private-sector housing.

The current system of housing allowances, however, discourages reliance on the private sector. Families have a strong financial incentive to live in on-base housing because the allowances do not fully cover the cost of obtaining private-sector housing.

Despite DoD's stated policies regarding reliance on the private sector, it will be difficult for the department to reduce its role as a direct provider of housing when there are long waiting lines for existing on-base units.

This option would change the incentives that military families and DoD housing managers face. Under this option, all military personnel eligible for family housing would receive cash housing allowances regardless of whether they lived in DoD or private-sector units. Families choosing to live on-base would be charged rent. Rents for each type of housing unit at each installation would be adjusted based on the actual demand for those units; rents would fall when there were vacancies and rise when there were waiting lists. DoD would continue to operate existing units as long as the rent--the value of the unit to military families--covered DoD's operating costs. It would authorize revitalization or replacement, however, only in locations where the value of the unit to service members (the rent level) was at least as great as the cost of operations plus amortized construction costs.

Total savings compared with CBO's estimate of the Administration's 1995 plan could amount to \$670 million in 1996 and \$3.3 billion through 2000. Some of the savings would derive from more efficient management of existing units: for example, the metering of utilities lowers energy costs (metering becomes equitable under a rental system since units with low energy efficiency would rent for less than other units), and eliminating the waiting lists yields savings in turnover of units and moving costs. Other savings would derive from lower revitalization and replace-

ment costs, since existing DoD units would be revitalized or replaced only in locations where the rent that service members were willing to pay covered the full cost to DoD of providing the units. Still other savings would come from reduced federal Impact Aid for schools; since on-base housing is not subject to local property taxes, the Department of Education pays federal Impact Aid to local governments to offset the cost of educating the children who live on-base.

These savings assume that rents for only 25 percent of existing DoD units would meet the criteria for revitalization or replacement. The estimates reflect the cost of raising the housing allowances to hold constant the total out-of-pocket cost incurred by service members (the difference between their total expenditures on housing and the total amount of allowances provided). Holding those costs constant ensures that the savings shown above reflect real savings in resources, not just a transfer of dollars from the pockets of service members to DoD.

In the long run, a rental system for DoD housing would allow the department to provide service members with the same quality of life at lower cost. It would provide better signals about the value of DoD housing to service members and would encourage them to take into account the full costs of their choice when considering whether to live in on- or off-base housing. A rental system would also eliminate the costs and frustrations associated with the current system of rationing through waiting lists. The quantity and location of DoD housing units would be determined based on the preferences of military personnel.

For example, rent levels for DoD units could signal the value of additional DoD units in areas where service members prefer to live on-base because the crime rate is high in the surrounding civilian community.

Disadvantages of this option include the costs of determining initial rental rates, setting up utility metering, and collecting rents. Special arrangements would have to be made for historic units (units that DoD must maintain even if rents do not cover operating costs) and for personnel who are required to live on-base to be available in the event that military needs arise (approximately 3 percent of all personnel). Since a rental system might have to be phased in as individuals started new tours, inequities might exist initially between people under the old system and those under the new. The option would also redistribute benefits: families who preferred to live in the private sector would be better off because of the higher allowances; families who preferred the on-base lifestyle would for the first time face the full cost of their choice.

Questions arise, however, about whether this is an appropriate time to consider such a change. On the one hand, decisions about revitalizing and replacing the 40-year-old housing stock must be made soon, which suggests that the market signals a rental system could provide would be particularly helpful right now. On the other hand, a major change in housing policies may be inappropriate while the services are conducting a large drawdown and many military personnel are anxious or uncertain about their career.

## DEF-32 ELIMINATE FEDERAL SUPPORT OF COMMISSARIES

| Savings from<br>the 1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |      |      | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|------|------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999 | 2000 |                                    |
| Budget Authority              | 120                                     | 230  | 340  | 460  | 480  | 1,620                              |
| Outlays                       | 90                                      | 200  | 310  | 430  | 460  | 1,480                              |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

The Department of Defense operates approximately 330 military commissaries in the United States and overseas. These commissaries are like grocery stores, selling food and related products to military members, retirees, and their dependents. Commissary shoppers save an average of just under 25 percent compared with shoppers in conventional civilian grocery stores. Commissaries are able to charge lower prices than do civilian grocery stores in part because commissary sales are exempt from local sales taxes and in part because the Congress provides approximately \$1 billion in direct appropriations to pay for salaries of commissary employees, transportation of goods to overseas stores, and other operating costs.

This option would phase out appropriated funding for commissaries gradually over four years, forcing the commissaries either to become self-sustaining or to close. Commissaries in urban areas that face stiff competition from commercial discount grocery stores would be among the most likely to close. Commissaries in isolated locations where military members have few alternatives for shopping might be able to maintain their customer base but would be forced to charge higher prices. To help offset the impact that higher commissary prices and reduced access to commissaries would have on the quality of life of active-duty personnel, half of the savings from reduced subsidies--roughly \$500 million per year by the end of the phaseout period--would be used to increase funding for cost-of-living allowances for active-duty personnel in high-cost areas. Taking the cost of that increase in allowances into account, this

option would save \$120 million in 1996 and a total of \$1.6 billion over the 1996-2000 period.

Although commissaries were established in 1866 to provide food and related items to military personnel assigned to remote posts, the current commissary system has far exceeded that original purpose. Commissaries are now open to retired personnel and their surviving spouses, certain personnel involuntarily discharged from service, disabled veterans and their surviving spouses, reservists, and officers of the Public Health Service, among others. In addition, commissaries are no longer limited to remote locations: there are now five stores in the Washington, D.C., area alone. Ending federal support for commissaries might force the system back toward its original purpose and reduce inappropriate competition between these subsidized, federally owned grocery stores and privately owned stores. Moreover, a system of direct cash payments to military members living in high-cost locations--payments that would permit military members who live off-base to shop in private stores near their home--has the potential to provide a higher quality of life at a lower cost than does a system of federally subsidized stores.

This option has important drawbacks. Retirees and other non-active-duty personnel who benefit from the commissary systems would clearly suffer a decline in their quality of life under this option. Commissary benefits are regarded by many military personnel as an integral feature of the military way of life. Even if increased cash allowances would be preferable to commissary benefits in the eyes of most

military personnel, eliminating the subsidy for commissaries could be perceived as an attack on the military. Terminating such a popular benefit in the

midst of the turmoil associated with a major reduction in the number of military personnel may not be appropriate.

## DEF-33 REDUCE THE DoD CIVILIAN ACQUISITION WORKFORCE

| Savings from<br>the 1995 Plan | Annual Savings<br>(Millions of dollars) |      |      |       |       | Cumulative<br>Five-Year<br>Savings |
|-------------------------------|---|------|------|-------|-------|------------------------------------|
|                               | 1996                                    | 1997 | 1998 | 1999  | 2000  |                                    |
| Budget Authority              | 50                                      | 195  | 530  | 1,030 | 1,760 | 3,565                              |
| Outlays                       | 50                                      | 190  | 520  | 1,015 | 1,735 | 3,510                              |

NOTE: This table includes estimated net savings in the federal budget. See Appendix A for estimated savings in the Department of Defense budget.

The Department of Defense has reduced its civilian workforce substantially since the late 1980s, in keeping with the overall reductions in its force structure. Total defense civilian employment decreased from about 1.1 million employees in 1988 to about 873,000 in 1995, a reduction of some 20 percent. As a part of the overall cutback, the department reduced the number of civilian jobs allocated to acquisition (the development and procurement of weapon systems and items needed to support military operations) by a similar proportion--about 23 percent--during the same period.

Today, DoD acquisition agencies employ approximately 425,000 civilian workers. DoD plans to reduce the size of its total civilian workforce by an additional 14 percent during the next five years. Presumably, future reductions in the number of acquisition jobs will continue to approximate those in the overall civilian workforce. This option proposes a reduction of 10 percent in civilian acquisition jobs beyond the reductions in the Administration's 1995 plan. That action could save about \$3.6 billion over the next five years.

The department could reduce the number of civilian acquisition personnel and achieve significant savings through streamlining and consolidating the existing military command structure that governs defense acquisition. That task is carried out by 10 major organizations among the three services, the Defense Logistics Agency, and a number of small components in various defense agencies. Although numerous internal reorganizations have occurred within these commands, DoD has not undertaken a comprehensive overhaul of the acquisition command struc-

ture itself. The only significant revision occurred in 1992 when the Air Force merged three commands into the Air Force Materiel Command. As a result of that reorganization and the overall defense draw-down, about 34 percent fewer civilian employees worked for the Air Force Materiel Command in 1994. Previous consolidations that created unified agencies such as the Defense Logistics Agency and the Defense Mapping Agency have also resulted in fewer jobs and greater efficiency. Depending on how it is planned, however, reorganization could require initial expenditures if personnel and equipment need to be relocated. Such initial expenditures could offset savings in the short term and delay their realization.

Some Members of Congress have proposed forming a single defense civilian acquisition agency, estimating that by doing so DoD could reduce the number of acquisition management personnel by between 25 percent and 30 percent. However, although consolidation could reduce the size of the workforce, a single acquisition agency may not be appropriate in view of the separate characteristics of the services' purchasing needs. Such an agency would still consist of components dedicated to developing, procuring, and supporting land combat vehicles, ships, aircraft, and other major systems. Given the redundancy in the current organizational scheme, consolidations could occur without requiring a complete overhaul of the acquisition bureaucracy.

Reforming the acquisition process could also achieve savings and reduce the need for civilian workers. The Federal Acquisition Streamlining Act of 1994, for example, includes a variety of measures

to simplify the acquisition process. Raising the threshold requirements for cost and pricing data and for procurement actions that would trigger government oversight, for example, promises to reduce the department's management burden considerably. DoD expects to save billions of dollars by relying more on commercial products than on costly military specifications in purchasing goods and equipment. The department is also reexamining the current process that governs procurement of major weapon systems. The review, which is headed by the Defense Acquisition Board and supported by the services' own acquisition management structures, is intended to reduce overhead and to ensure that "the fewest number of people are involved, and coordination minimized."

Although such reforms could result in efficiencies and the need for fewer employees if they are successful, past efforts at procurement reform have not generated the major breakthroughs the department and the Congress have hoped for. Nearly every Administration in the past three decades has undertaken steps to reform the acquisition process. Yet acquisition costs for weapons continue to increase beyond initial expectations. Reducing the size of the civilian workforce before policy reforms have proved

their effectiveness could jeopardize their potential to be integrated effectively into the acquisition process.

Reducing the acquisition workload could also help to lower personnel requirements during the next five years. Cutbacks in the number of acquisition workers have generally corresponded to reductions in the procurement workload over the past six years. For example, acquisition spending declined by almost 28 percent from 1988 to 1994, compared with a 23 percent reduction in the number of civilian acquisition workers. DoD has reduced its planned acquisition spending over the next five years by more than \$17 billion, suggesting that fewer workers might be needed.

In addition, the services are purchasing considerably fewer weapons than in the past. In 1990, for example, DoD bought 392 fixed-wing aircraft; this year the Administration has requested authorization to purchase only 74. The Navy is purchasing many fewer ships, and the Army is no longer building new tanks. Moreover, the services are developing fewer new systems to manage. In 1991, the Defense Acquisition Board oversaw 131 major programs compared with only 93 in 1994.