MARKET BASED APPROACH TO INCREASING INSTALLATION MISSION READINESS

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AN INTRACTABLE PROBLEM

- The Department of Defense has an unfunded maintenance backlog exceeding $116 Billion
- The backlog continues to grow as funding is increasingly diverted from preventative maintenance to emergency repairs
- The incentive structure is contributing to growth of the problem.

Current approaches are not working – we need to change incentives and reframe the way we approach this problem.

Misaligned Incentives Contribute to Maintenance Backlog Growth

**USERS**
- Mission Owners’ appetite is unchecked – no cost to expand into new space
- Facilities sustainment funding pegged to square footage – disincentive to reduce footprint.

**FACILITY MANAGERS**
- Budget caps create a disincentive to spend money for lowering future costs. E.g. Demolition costs current year money – savings are smaller and in future.

**BUDGET/PROGRAMMER**
- DoD and Service Budgets favor readiness and force modernization over infrastructure.
PREVIOUS APPROACHES HAVE NOT FULLY ADDRESSED THE PROBLEM

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<thead>
<tr>
<th>APPROACH</th>
<th>DESCRIPTION</th>
<th>RESULT</th>
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<tr>
<td>Base Realignment and Closure (BRAC)</td>
<td>• Savings driven by eliminating entire installations and reducing personnel.</td>
<td>• Recurring savings of more than $12-13 billion over 5 rounds</td>
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<td>Military Housing Privatization Initiative (MHPI)</td>
<td>• Conveyed domestic military housing to private developers, leveraged private capital, and created a market mechanism that forces landlords to attract tenants rather than managing housing centrally and assigning personnel to units.</td>
<td>• Fundamental shift, but only for housing. Associated loss of control is less acceptable for mission facilities</td>
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<td>Short Term Funding Increases</td>
<td>• Annual appropriations have, for short periods of time, provided additional funding to the enterprise to address most pressing needs.</td>
<td>• Incentives return the system to the current equilibrium</td>
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MHPI comes the closest to a transformative solution, but is there a way to use market mechanisms to address the larger installation enterprise?
TRANSFORMATIONAL CHANGE IS NEEDED: A MARKET BASED APPROACH TO INCREASING FACILITY READINESS

Big idea: Transform facility management into a Working Capital Fund operation, appropriating funds directly to mission owners and having them pay for the space they need.

Key Elements of Transformation

- Use Working Capital Fund to Create Internal Market
  - Rates include the cost of maintenance and management of the facilities
  - Facility managers can charge what they require to provide properly maintained facilities, but are responsible to ensure they deliver the agreed-upon services.

- Establish Landlord – Tenant Roles and Responsibilities
  - Mission owners are the customer, allocating their funds and paying for the space they need.

- Retain Military Service Governance and Control
  - The Service is not losing control of its real property asset.
  - The landlord entity will be owned by the Service, so landlord and tenant are both operating under the same Service leadership, goals and guidance.
WORKING CAPITAL FUND TO CREATE AN INTERNAL MARKET

• Market approach addresses key flaws in current system
• Internal budget competition would change
• Congress’ role would change – rather than oversight of maintenance budgets, Congress would oversee mission owner requirements, including budget to pay for space
• Working Capital Funds have long and successful track record within DoD, and do not require new authority from Congress (already provided to Secretary in law)

Shift in DoD Choice

“How much funding do we need to provide for facility maintenance?”

“How many facilities can we afford?”
Landlord-tenant relationships are common in the private sector.

Landlord / Facility Manager will have the ability to fulfill its responsibilities with adequate funding.

Tenant / Mission Owner will hold landlord accountable to provide agreed-to services, but will have to pay what is actually required to operate and maintain space.

Relationship will be based on market and performance, not central management.

Example Landlord and Tenant Roles

External entities (e.g. commissaries or exchanges) are treated as tenants on installations.

DoD mission owners that lease space external to installations are already funded to pay for their space.

GSA charges DoD and other federal entities for space in their properties.
• Significant concern might be loss of control of Service-owned real property, so we propose a model under which the Military Service retains ownership of installation and facilities

• In most cases, both the facility provider / landlord and the mission owner / tenant will belong to the same Service and share higher level strategic goals and guidance

• Working Capital Fund would belong to the Service, and the Service could decide if it wanted individual funds for each base.
## REALIGNING INCENTIVES

### Misaligned

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### Realigned

**Mission Owners will have incentives to minimize square foot per person to optimize cost**
- Cost will incorporate utilities, creating incentives for users to seek efficiencies
- Mission Owners will not opportunistically expand into empty space because they would have to pay for it.

**Preventative maintenance can be incorporated into rates – eliminating incentive to take risk**
- Inefficiency of expiring funds (and the cost of last minute contracts) no longer applies
- Must be responsive to customer – may create competition between installations for missions.

**Removes facility maintenance risk as savings option.**
CURRENT AND PROPOSED FUNDING FLOWS

Current Funding Flow

Proposed Funding Flow
RECOMMENDATIONS

- Develop a full-scale simulation (wargame) of approach to prove concept and generate lessons learned
- Conduct a pilot project at a base.

Wargaming Simulation

Norfolk Naval Base, VA