

## Appendix G

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# The Commission's Cost-Estimating Model

The Commission developed a model to capture the essential costs and savings resulting from realignments and closures. The model was used in determining whether the six-year payback guideline in the Charter had been achieved.

The model uses standard cost factors to convert into dollar values the actions required by the suggested options. Each Service was encouraged to provide the Commission with an assessment of the viability of the model as an estimating tool. Their responses indicated that planning and accounting mechanisms were sufficiently different to warrant Service-specific cost factors. The Services were required to document the source of their factors to the Commission.

In addition to the Service-specific factors, the model takes local cost factors into account. This was essential to determining the potential for reducing overhead by consolidating facilities, and to eliminate options in which activities are moved from relatively efficient facilities to less efficient sites. Calculations consider relative differences in the cost of maintaining the installation, paying off-base housing allowances, and building new facilities.

The model considers one-time transactions, costs or savings, such as construction, personnel retirements and severances, personnel relocation costs, equipment freight and transport costs, land

purchases or sales, cost avoidances, and environmental mitigation. There are also recurring costs or savings, including housing allowances, salary changes from hired or released billets, changes in base support (overhead and maintenance) costs, and mission-related costs experienced by the activity as a result of the relocation. During transition, both one-time and recurring costs or savings can occur.

In order to avoid misleading data based on differing inflation estimates, the model collects all costs in constant-dollar terms: a one-time conversion is then made at a three-percent inflation rate. A computation of net present value (at an assumed discount rate of ten percent) is made to determine the payback period and to provide a means of comparison of the different options. The net present value is computed for a twenty-year period, reflecting five transition years and fifteen steady-state years. The key decision item is the payback period, defined in the charter as the number of steady-state years required before the transition costs are recouped. The model itself is non-decisional, simply reporting the results of the computations.

The Services have reviewed this model extensively for theoretical soundness, and from the practical aspect of its assessment of the options proposed. Some are now considering it for their own future planning needs.