



## CRS Report for Congress

# Defense Surplus Equipment Disposal: Background Information

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### Summary

The Department of Defense (DOD), through the Defense Logistics Agency (DLA), has a policy for disposing of government equipment and supplies considered “surplus” or deemed unnecessary to the agency’s currently designated mission. The effort to dispose of surplus military equipment dates back to the end of World War II, when the federal government decided to reduce a massive inventory of surplus military equipment by making such equipment available to civilians.<sup>1</sup> At a July 25, 2006, hearing before the House Government Reform Subcommittee on National Security, Emerging Threats, and International Relations, Major General Bennie Williams, DLA Director of Logistics Operations, identified four target areas for managing surplus military equipment: (1) processing controls for batch lot items and materials requiring demilitarization; (2) processing of items coded with Local Stock Numbers received at the Defense Reutilization and Marketing Service (DRMS); (3) improved controls regarding access to DRMS inventory assets; and (4) reducing the concurrent procurement of items available at DRMS.<sup>2</sup>

In FY2006, DLA identified, disposed of, or re-utilized approximately \$20 billion dollars of military surplus/excess materiel — items ranging from desks and chairs to full weapons systems.<sup>3</sup> Property is considered “excess” when one particular agency decides that it is no longer needed, while property is considered “surplus” when it is no longer

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<sup>1</sup> Disposal of surplus real property, including land, buildings, commercial facilities, and equipment situated thereon, is assigned to the General Services Administration’s Office of Property Disposal. For further information, see CRS Report RS20630, *Surplus Federal Property*, by Stephanie Smith.

<sup>2</sup> Statement of Major General Bennie Williams before the House Government Reform Committee, Subcommittee on National Security, Emerging Threats and International Relations, July 25, 2006.

<sup>3</sup> From the DRMS website, at [<http://www.drms.dla.mil>].

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needed by the federal government. After property is transferred to DRMS, property is declared surplus after about 21 days. Surplus property can be reused, transferred, donated, or sold; potential recipients include law enforcement agencies, school systems, medical institutions, civic and community organizations, libraries, homeless assistance providers, state and local government agencies, and the public. “Disposal” is the process of redistributing, transferring, donating, selling, demilitarizing, destroying, or other “end of life cycle” activities, and is the final stage before the property leaves DOD’s control.<sup>4</sup> In some cases, the act of demilitarization — of destroying the item’s military offensive and defensive capability — accomplishes the disposal. About half of surplus items are designated for the foreign military sales program, and about half are made available to other government agencies, eligible donees, or sold to the public.<sup>5</sup>

Under DLA, DRMS is charged with the disposal of surplus and excess defense equipment and supplies. DRMS was the successor organization to the Defense Property Disposal Service. Headquartered in Battle Creek, Michigan, DRMS has a total work force of 1,328 civilians and 11 active duty military personnel. DRMS has offices in 37 states and 14 countries (including Iraq and Afghanistan), providing support at major U.S. military installations around the world. In Fiscal Year 2005, DRMS processed 3.4 million line items, with an original acquisition value of over \$20 billion.<sup>6</sup>

In June 2001, DRMS awarded a seven-year contract to Surplus Acquisition Venture, LLC, for the exclusive right to sell military surplus items. The company established Government Liquidation, LLC as the purchaser and reseller for aircraft parts, vehicles, clothing and textiles, medical items, furniture, commercial kitchen equipment, and other items. Government Liquidation is a subsidiary of Liquidity Services, Inc. (LSI), and holds the exclusive contract with DRMS for the sale of surplus DOD property. Effective December 1, 2006, LSI established new “centralized controlled property centers” in the U.S. to achieve greater control over inventory to prevent restricted property from being offered for sale to the public.<sup>7</sup> As of June 1, 2007, LSI’s contract with DOD was broadened to include the oversight, audit, and verification procedures for the destruction of DOD scrap property sold to the public. Under the terms of the contract, LSI will

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<sup>4</sup> See the Acquisition Community Connection at the Defense Acquisition University, at [<https://acc.dau.mil>].

<sup>5</sup> For further discussion of excess defense property, and the demilitarization and disposal of surplus military equipment, see CRS Report RL31675, *Arms Sales: Congressional Review Process* and CRS Report RS20428, *Excess Defense Articles: Grants and Sales to Allies and Friendly Countries*, both by Richard F. Grimmett, and CRS Report RL31686, *Demilitarization of Significant Military Equipment*, by Valerie Bailey Grasso. Another source for information is the Demilitarization and Disposal section of the Acquisition Community Connection at the Defense Acquisition University.

<sup>6</sup> Statement of Bennie Williams, Director, Defense Logistics Agency, before the House Government Reform Subcommittee on National Security, Emerging threats, and International Relations, July 26, 2006.

<sup>7</sup> Press Release. Liquidity Services, Inc., to Develop and Implement New Inventory Assurance Procedures under Its Surplus Contract with DOD. September 13, 2006. [<http://investor.liquidityservicesinc.com/phoenix.zhtml?c=195189&p=irol-newsArticle&ID=904827&highlight=>]

manage the receipt, marketing, and sale of virtually all DOD surplus scrap property in Hawaii and Guam.

In 2005, DLA conducted a public-private competition for warehousing functions at 68 DRMS sites in the United States, including Hawaii. As a result of cost-comparison, DRMS determined that it was more cost effective to retain the government employees rather than convert to contractor performance. The final decision, to retain the government's Most Efficient Organization (MEO), was announced on October 7, 2005.<sup>8</sup>

## Legislative Activity

In the 110<sup>th</sup> Congress, two bills have been proposed that would strengthen the control of sensitive surplus military equipment. S. 387, the Stop Arming Iran Act, was introduced on January 25, 2007, has two co-sponsors, and was referred to the Senate Armed Services Committee. The bill would prohibit the direct or indirect sale of spare parts for F-14 fighter aircraft (whether for sale through DRMS or through another DOD agency). A similar bill, H.R. 1441, also known as the Stop Arming Iran Act, was introduced on June 12, 2007, has 38 co-sponsors, and was referred to the House Armed Services Committee.<sup>9</sup>

## Controlling Legal Authority

Authority for the disposal of surplus defense property can be found in Public Law (P.L.) 94-519, 10 U.S.C. 381, which amends the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484), P.L. 107-117, and in DOD Manual 4160.21, at [<http://www.dla.mil/dlaps/dod/416021m/guide.asp>].

## Major Recipients

**State and Local Governments.** If property cannot be reused or transferred to other federal agencies, it may be donated to state and local government programs. Each state has designated a "State Agency for Surplus Property Program," which is a local governing authority to receive and distribute all federal surplus property. The program authorizes "screeners" to handle the logistics, and the state agency may charge a fee for handling the transaction. Eligible recipients include, but are not limited to organizations that promote public health, safety, education, recreation, conservation, and other public needs, including veterans groups and Native American organizations. Some groups that qualify as a "service education activity" may have a slight priority in the screening process.

**Law Enforcement Support Office (LESO).** LESO administers 10 U.S.C. Section 2576a, which transfers excess DOD equipment to federal and state law enforcement agencies through the 1033 Program (FY1997 National Defense

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<sup>8</sup> Defense Logistics Agency Announces DRMS A-76 Results. October 7, 2005. [[http://www.dla.mil/DLAPublic/DLA\\_Media\\_Center/PressRelease/PressRelease.aspx?ID=17](http://www.dla.mil/DLAPublic/DLA_Media_Center/PressRelease/PressRelease.aspx?ID=17)]

<sup>9</sup> Liquidity Services Expands Scrap Service. *Recycling Today*, May 30, 2007; and Liquidity Services Expands its Scope of Work Under its Scrap Contract with U.S. DOD, *Business Wire*, May 29, 2007, at [<http://www.businesswire.com>].

Authorization Act). DLA estimates the LESO budget for FY2008 and FY2009 to be \$1.3 million for each year.<sup>10</sup> In addition, the 1122 Program (FY1994 National Defense Authorization Act) authorizes state and local governments to purchase law enforcement equipment for counter-drug activities. Each state appoints a “Point of Contact (POC)” for this program; the POC may purchase items from any of the four inventory control points managed by DLA. To order items, applicants are to contact their State Agency for Surplus Property Program.

**Fire-Fighting Support Program.** Title 10 U.S.C. 2576b authorizes the U.S. Department of Agriculture Forest Service to manage the DOD firefighting property transfers. An interagency agreement between DOD and the Forest Service is under the authority of the Economy Act, 31 U.S.C. 1535. The Federal Excess Personal Property (FEPP) Program, administered through the Forest Service, provides equipment to state and territorial forestry programs for wildland and rural firefighting.<sup>11</sup>

**Humanitarian Assistance Program.** 10 U.S.C. 25 authorizes DOD to provide excess property as coordinated through the Defense Security Cooperation Agency, Office of Humanitarian and Refugee Affairs.

**Public Sales.** Property not reused by DOD, transferred, or donated can be sold to the general public through public auctions and sealed bidding. Munitions, explosives and strategic items are not sold.

## Other Programs

There are a number of special programs which may assist organizations which fail to qualify for DRMS property as a DOD, federal, or donation customer. Such programs include (but are not limited to) museums, educational institutions, National Guard and Senior Reserve Officer Training Corps units, and the Civil Air Patrol.<sup>12</sup>

## For Additional Information

The DLA Customer Interaction Center is open 24 hours a day, 7 days a week, at (877) 352-2255. [<http://www.drms.dla.mil/pubaff/html/glance.html>]

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<sup>10</sup> Defense Logistics Agency, Operation and Maintenance, Defense-Wide, FY2008/FY2009 Budget Estimates.

<sup>11</sup> [<http://www.fs.fed.us/fire/partners/fepp/>].

<sup>12</sup> For further information, see [<http://www.drms.dla.mil/rtd03/specialprograms.htm>].