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DEPOT MAINTENANCE

Air Force Faces Challenges in Managing to 50-50 Ceiling

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Air Force's recent waiver of the 10 U.S.C. 2466 provision that places a 50-percent ceiling on the amount of depot maintenance funds that can be used for work performed by the private sector. The statute allows the Secretary of a military department to waive the 50-percent requirement for purposes of national security. In notifying the Congress of the waiver, the Secretary of the Air Force explained the need for the waiver primarily because the private sector was needed to temporarily support maintenance that is being moved from the closing Sacramento, California, and San Antonio, Texas, depots to other military depots or private sector sources.[1] As you requested, my testimony today focuses on the basis for the waiver and the likelihood that the Air Force will need additional waivers in the future.

RESULTS IN BRIEF

The Secretary of the Air Force acted within his legal authority to waive the 10 U.S.C. 2466 requirement that not more than 50 percent of the funds made available for depot maintenance work be performed by private sector contractors. Although the Air Force explanation for the waiver was based primarily on the need to use temporary repair contracts[2] and temporary contract personnel[3] to

[1] These depots are closing as a result of 1995 decisions of the Base Realignment and Closure Commission to close McClellan Air Force Base and realign Kelly Air Force Base.
[2] These contracts are for short-term workloads performed by a contractor to support requirements during workload transitions between sources of repair.
[3] Temporary contract personnel performing depot maintenance at a government facility.

support workloads at closing depots, these temporary contracts represent only a minor share of the Air Force contract workload and did not in and of themselves create the need for a waiver. A significant factor leading to the waiver were previous Air Force actions that increased the private sector share of depot maintenance work from 36 percent in 1991 to the 50-percent ceiling in 2000--leaving little room to respond to emergencies.

Preliminary Air Force data indicates the Air Force will be close to the 50-percent ceiling through fiscal year 2004. Yet repair costs for work already on contract are increasing more than previously estimated. For example, long-term depot maintenance contracts are expected to grow from $1.1 billion in fiscal year 2000 to $1.5 billion in fiscal year 2004. In addition, the Air Force is implementing initiatives to outsource total systems support responsibility to the private sector--including depot maintenance--for 64 new or modified systems, including the Joint Direct Attack Munition, AC-130U Gunship, Sensor Fuzed Weapon, and Joint Air to Surface Standoff Attack Missile. While the Air Force indicated a waiver should not be needed beyond 2001, the increasing amount of the Air Force's contract depot maintenance work and future outsourcing plans create a significant challenge to the Air Force in managing its depot maintenance work within the 50-percent ceiling.

BACKGROUND

Depot maintenance involves the repair, overhaul, and upgrade of military systems and equipment as well as the subsystems and reparable components that make up these systems. It is performed in either military depots or contractor facilities but is sometimes performed at military bases by government civilians or contractor personnel. The amount of depot maintenance work done by the public and private sectors is governed by 10 U.S.C. 2466. The statute states that not more than 50 percent of the funds made available in a fiscal year to a military department or a defense agency for depot-level maintenance and repair can be used by the private sector. This percentage applies to each military department. The statute also requires the Department of Defense to annually report to Congress regarding the depot maintenance funds used by the public and private sectors in the previous year and to estimate the split in the future years. It also requires GAO to review and report on the data submitted by the Department.[4]

The law permits the Secretary of a military department to waive the 50-percent ceiling for a fiscal year if the Secretary determines it is necessary for national

[4] DOD submitted its report on the 1999 data to the Congress in February 2000 and we are currently analyzing that data. DOD is scheduled to report its outyear data by April 1, 2000 and we have 60 days to review and report on that data.

security reasons and notifies Congress of the reasons for the waiver. Another provision, 10 U.S.C. 2460, defines what work is considered to be depot-level-maintenance. The definition of depot maintenance that was established by this provision has resulted in increased reporting of depot maintenance costs by the military departments in recent years.

On January 11, 2000, the Air Force notified the Congress that the Secretary of the Air Force had approved a waiver of the 50 percent requirement for the Air Force's depot activities for fiscal year 2000. Specifically, the Secretary's notification stated that contracts were required to support workloads of the closing Sacramento and San Antonio Air Logistics Centers that had either been moved to other Air Force centers or redistributed between the private sector and the other Air Force centers as a result of public-private competitions within the last 3 fiscal years. According to the Secretary, during the same time period, the Air Force had experienced abnormally high demands and unusually low mission capable rates[5] for key warfighting assets. As a result, the Air Force reported that it had to enter into temporary contracts to compensate for shortfalls in maintenance and repair capabilities. The Secretary noted that private sector contractor workloads would closely approach 50 percent in fiscal year 2000 and the addition of the temporary contracts could result in private sector contractors exceeding the 50 percent ceiling.

[5] Mission capable rates represent the reported percent of unit aircraft that are capable of performing at least one of their assigned missions.

NEED FOR TEMPORARY PRIVATE SECTOR CONTRACTS NOT THE MAJOR REASON FOR THE WAIVER

Given the broad language of the waiver provision and the discretion agencies have in interpreting and implementing their own statutes, we do not question the legal propriety of the waiver. However, the explanation for the waiver understates key factors that led to the need for the waiver. While the waiver principally cites the need to use temporary repair contracts and temporary contract personnel to meet workloads created by closing depots, these temporary contracts represent only a small share of the Air Force contract workload and did not in and of themselves create the need for a waiver. A more significant factor was the increase in the amount of other contract depot maintenance work in recent years that brought the Air Force up to the 50-percent ceiling.

Use of Temporary Repair Contracts and Temporary Contract Personnel Is Limited

Collectively, the temporary repair contracts and temporary contract personnel are estimated to cost $135 million in fiscal year 2000. This represents about 4.4 percent of the $3 billion in depot maintenance work the Air Force expects to contract with the private sector for fiscal year 2000.

To carry out the transition of workloads from two closing depots, the Air Force awarded temporary contracts with private companies to provide interim depot maintenance support until new sources of repair work are operational. Some of these contracts were awarded as early as 1998. As shown in table 1, the Air Force

estimates that it could spend $104 million on these contracts during fiscal year 2000.[6]

Table 1: Estimated Temporary Contracts for Fiscal Year 2000

Dollars in millions

Center	Amount
San Antonio	$87.5
Sacramento	8.0
Warner Robins	6.0
Oklahoma City	1.6
Ogden	1.3
Total	**$104.4**

Source: Air Force data.

Air Force officials at the Oklahoma, Ogden, and Warner Robins Air Logistics Centers told us they do not anticipate needing these contracts beyond fiscal year 2000. San Antonio officials told us some of their center's temporary contracts might be needed through fiscal year 2001.

Although the Secretary of the Air Force also justified the need for a waiver based on the increased use of temporary contract personnel, the cost for them is not significant in fiscal year 2000. Temporary contract personnel were seldom used in Air Force depots prior to the need to support workloads transitioning from closing depots to other sources of repair. As shown in table 2, increased use of temporary contract personnel peaked in fiscal year 1999. Its use is projected to decrease by about $92 million during fiscal years 1999-2000.

[6] The Air Force has another $42.7 million in temporary contracts for fiscal year 2000. These are for private sector contracts for engine workloads that were already included in contract projections and consequently would not further impact the 50-50 position.

Table 2: Temporary Contract Personnel Costs

Dollars in millions

Fiscal year 1997	Fiscal year 1998	Fiscal year 1999	Fiscal year 2000	Fiscal year 2001
$31.9	$61.7	$122.3	$30.5	$2.6

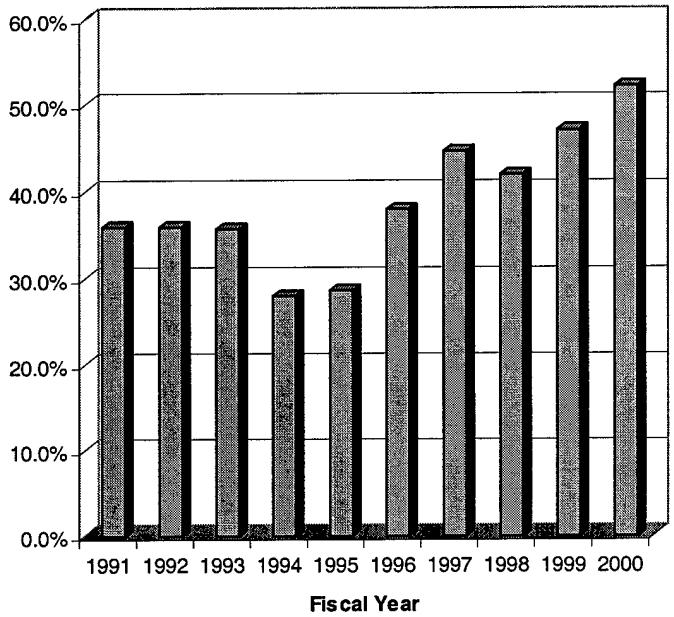
Source: Air Force data.

About $27 million of fiscal year 2000's temporary contract personnel cost is to support workloads moving from closing centers: $14.4 million at the Warner Robins depot to support the C-5 aircraft, $7.2 million at the Sacramento depot to support work on remaining KC-135 aircraft, and $5.4 million at the Oklahoma City depot that is associated with engine workload.

Air Force Has Significantly Increased Use of Contract Depot Maintenance

As shown in figure 1, the Air Force--consistent with its plans and policies--has increased the private sector share of its depot maintenance work from 36 percent in fiscal year 1991 to about 50 percent in fiscal year 2000.

Figure 1. Contractor Depot Maintenance Workload Allocations from 1991 to 2000



Note: Data for fiscal years 1991-1995 came from a March 1996 DOD report to the Congress, Depot Level Maintenance and Repair Workload. Data for fiscal year 1996 comes from our report, Defense Depot Maintenance: Information on Public and Private Sector Workload Allocations (GAO/NSIAD-98-41, Jan. 20, 1998). Data for fiscal years 1997-1999 came from DOD reports to the Congress on depot maintenance workloads. Data for fiscal year 2000 came from the Air Force Materiel Command. The fiscal year 2000 estimate includes $104 million for temporary repair contracts.

Source: Air Force data.

While increasing the private sector share of the Air Force's depot maintenance workload is consistent with DOD's policy to increase outsourcing of all types of logistics support activities, including depot maintenance, the Department has consistently said that it would manage its depot maintenance program within the 50-percent ceiling. However, because of various management decisions in recent years, the Air Force now has little flexibility to respond to emergency contract requirements and stay within the ceiling for private sector work.

The following show some decisions that have brought the Air Force to this point.

- The Air Force increased the use of long-term depot maintenance contracts to support new systems. The cost of these contracts has increased from $600 million in fiscal year 1996 to $1.1 billion in fiscal year 2000, an increase of 83 percent. This contract maintenance category includes support for such systems as the F-117, U-2, KC-10, C-17 aircraft, and various classified programs.

- The closure of the San Antonio, Texas, depot resulted in the transfer of about 66 percent of the engine workloads performed at that facility--which is estimated to be valued at about $545 million annually--to the private sector.[7]

- The closure of the Sacramento, California, depot resulted in the transfer of aircraft repair work valued at about $57 million annually to the private sector.[8]

- The closure and privatization-in-place of the Newark, Ohio, depot resulted in the transfer of aircraft and missile guidance repair work valued at about $94 million annually to the private sector.

These actions, along with the need for temporary contracts to support the work being transferred from Sacramento and San Antonio, caused the Secretary of the Air Force to waive the 50-percent limitation.

AIR FORCE FACES MAJOR FUTURE CHALLENGE IN MANAGING TO THE 50-PERCENT CEILING

The Air Force stated that the need for a waiver of the 50-percent requirement is temporary and should not be required beyond 2001. However, preliminary data shows that the Air Force will be close to the 50-percent ceiling during fiscal years 2000 through 2005. Further, maintenance work for systems already on contract is

[7] The Air Force contracted out the F100-229 engine, with an average annual workload of $128 million, to United Technologies Corporation Pratt & Whitney San Antonio, Inc. The Air Force held a public-private competition to determine the future source of repair of the remaining engine work from the San Antonio depot. The public sector offeror, which consisted of a public-private partnership of the Oklahoma City Air Logistics Center and Lockheed Martin Kelly Aircraft Company, won the competition--with Lockheed getting about 60 percent of the workload, which is valued at about $417 million annually.

[8] The Air Force held a public-private competition to determine the future source of repair for most of the closing Sacramento depot workloads. The public offeror, which consisted of a public-private partnership of the Ogden Air Logistics Center and Boeing Aerospace Corporation, won the competition--with Boeing getting about 39 percent of the workload. Sacramento's ground communication equipment workload was moved outside the competition to the Tobyhanna Army depot based on a recommendation of the Base Realignment and Closure Commission.

growing more than previously expected, and the Air Force is planning further outsourcing of maintenance work for new and modified systems in the future. While the Air Force has embarked on several courses of action to help manage its workload under the 50-percent ceiling, the Air Force faces major challenges if it is to stay under the ceiling.

The Air Force Secretary said that a waiver could be required in fiscal year 2001 because of the continuing need for temporary maintenance contracts to support the workloads transitioning from closing depots. We found that the San Antonio depot is planning to continue to use that temporary support for 2001 at an estimated cost of about $38 million. Nonetheless, other contract maintenance work is increasing that will likely make it necessary for the Air Force to seek future waivers unless workloads currently performed or planned for the private sector are brought into the military depot system.

We have not yet been able to review the latest Air Force estimates for depot maintenance work to be performed in the public and private sectors during fiscal years 2000-2004. Air Force officials told us these estimates are still under review and will be submitted to the Office of the Secretary of Defense in time to support the required April 1, 2000, report of future years estimates to the Congress. Nonetheless, our March 1, 2000, report[9] on last year's 50-50 estimates stated that

[9] Depot Maintenance: Future Year Estimates of Public and Private Workloads Are Likely to Change (GAO/NSIAD-00-69, Mar.1, 2000).

preliminary data from the Air Force showed that expenditures for depot maintenance workloads on contract could exceed the 50-percent ceiling in the coming years. We adjusted the Air Force data for fiscal year 2000 to account for temporary repair contracts and it indicates that the Air Force would exceed the 50 percent ceiling by $35.5 million, as seen in table 3.

Table 3. Available Funding Flexibility to Stay Within 50 Percent Ceiling

Dollars in millions

Fiscal year 2000	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004
($35.5)	$11.4	$147.7	$130.3	$136.8

Source: Air Force Materiel Command 1999 Data, adjusted by GAO for estimated temporary repair contracts in fiscal year 2000.

The data also shows the flexibility the Air Force will have for growth in contract maintenance in future years, given projected workload allocations at that time.

Several categories of contract depot maintenance work are growing more than what had been previously estimated for years 2000 and beyond. For example, a February 2000 Air Force Materiel Command memorandum stated that two categories of long-term contract maintenance--contractor logistics support and interim contractor support--were projected to grow $48 million more than had previously been projected for fiscal year 2000. Contract costs for these categories were said to be expected to grow from $1.1 billion in fiscal year 2000 to $1.5 billion in 2004. Depot maintenance for newer weapon systems such as the C-17 and F-117, that use contractor logistics support, are increasing at a faster pace

than originally anticipated. As these weapons systems age and additional aircraft enter the inventory, these trends will likely continue.

The Air Force is also planning to contract out total system program responsibility--including depot maintenance--for 64 new and modified systems. Additionally, we reviewed 13 programs that had entered the source of repair process --a DOD procedure for determining whether new maintenance workloads will be performed in the public or private sector—between September 1999 and February 2000. Eleven of the 13 programs, with an estimated repair cost of $85.2 million during fiscal years 2000- 2006 are currently recommended for private sector contract repair. We found that some new maintenance workloads were being contracted out without completing the source-of-repair process. For example, in October 1999, a contract was signed for installation of modification kits for C/KC-135 aircraft, even though a source of repair analysis had not been completed. This contract involves installation costs of about $157 million over a 5-year period. At the same time, the maintenance contract workload is increasing faster than earlier anticipated, as older systems are phased out of the inventory. As a result, the public sector share of the workload will decrease, aggravating the Air Force's problem of maintaining the 50-50 share.

Air Force officials indicate that they have embarked on several courses of action to improve its management of depot maintenance workloads with respect to the 50-percent ceiling, including

- exerting more control over and management attention to the assignment of work to the public and private sectors for repairs to new and modified systems and components,
- reviewing work that is currently on contract for possible performance in a public depot,
- increasing attention to the impact of future depot workloads in the acquisition process when depot support strategies are discussed, and
- continuing mid-year assessments and actively monitoring programs for workload shifts and changes in scope.

We have not yet seen that these actions have significantly affected the Air Force's workload allocation problem.

Despite the increasing trend toward outsourcing, Air Force Materiel Command officials stated that some opportunities exist to bring additional older workloads from private sector contract repair into the military depot system. For example, landing gear for various aircraft previously repaired on contract is being transitioned into the Ogden depot. This workload represents an estimated annual value of $9.7 million. Officials at all three remaining Air Force depots noted that some opportunities exist to move other work to government depots, for example, work that both military depots and contractors are splitting. However, they said that these opportunities are limited to work on older systems. They noted that the workloads the depots need are those that would infuse the military depot system with new technologies, including component and aircraft repair work for newer systems such as the C-17 and F-22 aircraft and the F100-229 and F119 engines. This idea was supported by a recent memorandum from the Ogden Air Logistics Center to the Headquarters, Air Force Materiel Command, which noted that

maintaining core capability--the capability that is to support requirements in a contingency situation--requires the depots to establish repair capability for new and modified systems. Nonetheless, should new initiatives be adopted to bring new work into the depots, they would require funding and time would be needed to establish a repair capability.

In conclusion, given the outsourcing trends discussed above as well as the down-turn that is expected in the public sector share as older systems are phased out of the inventory, the Air Force faces major challenges remaining under the 50-percent ceiling in the future.

Mr. Chairman, this concludes my statement. I am prepared to respond to your questions at this time.

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Contacts and Acknowledgments

For future questions regarding this testimony, please contact me or my Assistant Director, Julia Denman at (202) 512-4290. Other individuals making key contributions to this testimony included Mike Kennedy, Bruce Fairbairn, John Brosnan, and Pam Valentine, Larry Junek, and John Strong.

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