Affordability Challenges for DoD Weapon Systems

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4/13/2009
### Affordability Challenges for DoD Weapons Systems

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Agenda

• Background

• Budget Outlook

• Acquisition Policy Changes

• Modernization Challenges

• Case Example (Joint Light Tactical Vehicle)

• Parting Thoughts
Background – DoD Weapon Systems Cost Growth

"In a number of programs, the Department of Defense has experienced significant growth over the original estimates in the development and procurement of weapon systems. These cost increases are detrimental to the warfighter and the taxpayer. The result is generally later delivery of capability and a reduction in the quantity purchased."

Hon. John J. Young Jr.
Under Secretary of Defense for Acquisition, Technology and Logistics
July 30, 2007 Memo to the Services & Defense Agencies.
Recent Defense Business Board Findings*

- The total acquisition budget for all MDAPs has more than doubled in the past seven years (from $782B to $1,702B)

- Of the approximately $919B in increased portfolio budget from 2000 – 2007, nearly half ($401B) is for program cost growth over the baseline. The other half is for new programs or baseline changes.

- Five Programs accounted for over 50% of the program cost growth over the baseline - Future Combat System (Army), Joint Strike Fighter (Navy/AF), SSN 774 (Navy), Chemical Demilitarization (Army), and Evolved Expendable Launch Vehicle (EELV)

- History suggests the Department is entering a period of fiscal constraint in a tough economy with deficit and competitive spending pressures.

* Defense Business Board Briefing – 23 Oct 08
Budget Outlook
Defense Resources as a Percentage of Gross Domestic Product

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<th>FYDP</th>
<th>CBO Projection</th>
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<tr>
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<td>2000</td>
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<td>2004</td>
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<td>2008</td>
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<td>2012</td>
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<td>2016</td>
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<tr>
<td>2024</td>
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Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program.
Past and Projected Resources for Defense

(Billions of 2009 dollars)

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program.
Past and Projected Resources for Army Investment

(Billions of 2009 dollars)

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; C4ISR = command, control, communications, computers, intelligence, surveillance, and reconnaissance; FCS = Future Combat Systems.
Other Pressures – Social Security

Spending for Social Security as a Percentage of Gross Domestic Product

(Percent)

Source: Congressional Budget Office.
Other Pressures – Medicare & Medicaid

Federal Spending for Medicare and Medicaid as a Percentage of Gross Domestic Product Under Different Assumptions About Excess Cost Growth

(Percent)

Excess Cost Growth of:
- 2.5 Percentage Points
- 1 Percentage Point
- Zero

Source: Congressional Budget Office.

Notes: Excess cost growth refers to the number of percentage points by which the growth of annual health care spending per beneficiary is assumed to exceed the growth of nominal gross domestic product per capita.

The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections from 2008 to 2017 and then extending the baseline concept in its projections for the rest of the years in the period, to 2082.
Acquisition Policy Changes
Acquisition Policy Changes

• Historical cost growth for DoD weapon systems is a big reason for recent changes to acquisition policy. (FY06-FY08)

• Congress perception - Nunn McCurdy law had been in place since 1982, but:
  - Insufficient consequences
  - Cost growth continued
  - Perception of “Rubber Baselines” & lack of discipline

• Reaction:
  FY06 NDAA:
  1. Tightened Nunn McCurdy rules and measurements
  2. Section 2366 required USD(AT&L) certify MDAPs at MS B

  FY07 NDAA - Added three more criteria for MS B certification

  FY08 NDAA - Required USD(AT&L) to certify at MS A
  1. Program costs have been submitted
  2. Program is non-duplicative
  3. Valid requirement exists

Result is to address cost much earlier in the life cycle
Comparison of 2003 vs. 2008 Frameworks

Defense Acquisition Management Framework - 2003

User Needs & Technology Opportunities

A: Concept Refinement
B: Technology Development
C: System Development & Demonstration

Program Initiation

Concept Decision

Design Readiness Review

Production & Deployment

FRP Decision Review

Operations & Support

Defense Acquisition Management System - 2008

User Needs

Technology Opportunities & Resources

A: Materiel Solution Analysis
B: Technology Development
C: Engineering and Manufacturing Development

Materiel Development Decision

Post PDR Assessment
Post-CDR Assessment

Focus of major changes
The Defense Acquisition Management System 2008

User Needs

Technology Opportunities & Resources

Materiel Solution Analysis

Concept Decision (CD)

Technology Development

Material Development Decision (MDD)

PDR

Engineering and Manufacturing Development

PDR Assessment

Post-PDR Assessment

Production & Deployment

CDR Assessment

Post-CDR Assessment

IOC

FRP Decision Review

FOC

Operations & Support

Sustainment

Changes to Decision Points

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<td>Materiel Development Decision (MDD)</td>
<td>MDD required prior to entering the process at any point</td>
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<td>Post-PDR Assessment</td>
<td>MDA's assessment of PM's PDR Report (if PDR after MS B)</td>
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<td>Design Readiness Review DRR</td>
<td>Post-CDR Assessment</td>
<td>MDA's assessment of PM's CDR Report</td>
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The Defense Acquisition Management System 2008

User Needs

Technology Opportunities & Resources

Pre-Systems Acquisition

Technology Development

Engineering and Manufacturing Development

Production & Deployment

Operations & Support

Sustainment

Changes to Phases

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<td>Concept Refinement (CR)</td>
<td>Materiel Solution Analysis</td>
<td>More robust AoA (result of changes to JCIDS)</td>
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<td>Technology Development (TD)</td>
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<td>Competitive prototyping</td>
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<tr>
<td>Systems Development &amp; Demonstration (SDD)</td>
<td>Engineering &amp; Manufacturing Development (EMD)</td>
<td>More robust system engineering</td>
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§ 2366a. Major defense acquisition programs: certification required before Milestone A or Key Decision Point A approval

(a) CERTIFICATION - A major defense acquisition program may not receive Milestone A approval, or Key Decision Point A approval in the case of a space program, until the Milestone Decision Authority certifies, after consultation with the Joint Requirements Oversight Council on matters related to program requirements and military needs—

(1) that the program fulfills an approved initial capabilities document;

(2) that the program is being executed by an entity with a relevant core competency as identified by the Secretary of Defense under section 118b of this title;

(3) if the program duplicates a capability already provided by an existing program, the duplication provided by such program is necessary and appropriate; and

(4) that a cost estimate for the program has been submitted and that the level of resources required to develop and procure the program is consistent with the priority level assigned by the Joint Requirements Oversight Council.

If, at anytime prior to MS-B approval, the projected cost of the program exceeds the estimate submitted at the MS-A certification by 25%: The PM must notify the MDA. The MDA, in conjunction with the JROC, shall determine if the current estimated cost is consistent with the priority of the program assigned by the JROC. Based on the above determination, the MDA may rescind MS-A approval.
§ 2366b. Major defense acquisition programs: certification required before Milestone B or Key Decision Point B approval
(a) CERTIFICATION - A major defense acquisition program may not receive Milestone B approval, or Key Decision Point B approval in the case of a space program, until the milestone decision authority--
(1) has received a business case analysis and certifies on the basis of the analysis that--
   (A) the program is affordable when considering the ability of the Department of Defense to accomplish the program's mission using alternative systems;
   (B) the program is affordable when considering the per unit cost and the total acquisition cost in the context of the total resources available during the period covered by the future-years defense program submitted during the fiscal year in which the certification is made;
   (C) reasonable cost and schedule estimates have been developed to execute the product development and production plan under the program; and
   (D) funding is available to execute the product development and production plan under the program, through the period covered by the future-years defense program submitted during the fiscal year in which the certification is made, consistent with the estimates described in subparagraph (C) for the program; and
(2) further certifies that--
   (A) appropriate market research has been conducted prior to technology development to reduce duplication of existing technology and products;
   (B) the Department of Defense has completed an analysis of alternatives with respect to the program;
MS B – 2366(b) Certification (cont)

(C) the Joint Requirements Oversight Council has accomplished its duties with respect to the program pursuant to section 181(b) of this title, including an analysis of the operational requirements for the program;
(D) the technology in the program has been demonstrated in a relevant environment;
(E) the program demonstrates a high likelihood of accomplishing its intended mission; and
(F) the program complies with all relevant policies, regulations, and directives of the Department of Defense.

- McCain and Levin co-sponsors (S0454)
- The bill if passed would:
  - Establish a Director of Independent Cost Assessment
  - Presidential appointee
  - Principal advisor to the SECDEF, USD (ATL), and USD(Comptroller) on cost analyses and cost estimation of the acquisition programs for DoD.
  - Authorizes actions in the event of critical cost growth
    1. Terminate the program unless the SECDEF deems the program critical to national security.
    2. If the program is not terminated, then SECDEF must submit to Congress:
       (a) certification that program is critical to national security
       (b) there are no alternatives to program that will provide equal or greater joint capability.
       (c) new estimates for program acquisition unit cost or procurement unit cost are reasonable.
       (d) management structure is adequate to manage and control program acquisition unit cost or procurement unit cost

Bottom Line: Program unit costs are going to be scrutinized like never before
Modernization Challenges
Army Modernization Challenges

1. Rapidly field the best new equipment to the current force
2. Upgrade and modernize existing systems
3. Incorporate new technologies from Future Combat Systems (FCS)
4. Field the FCS Brigade Combat Teams
TWV Modernization Challenges

- Meeting TWV Requirements continues to be a challenge
  - Evolving and Increasing Requirements
    (Grow the Army, Modularity)
  - Decreasing Current Inventory
    (Obsolescence, Losses)
  - Decreasing Support
  - Limited Resources

- The TWVs of the future will have to deliver the capabilities the Services need, and be affordable in the quantities the Services require

**1988**

**Unit Cost per Base Vehicle**
(Adjusted for inflation)

**1988**

- **$50K**

**2008**

- **$150K**

Source: LTG Speaks Presentation
2009 TWV Conference, Monterey, CA
Tactical Systems are Increasing in Complexity

HMMWV – M998 (1984-1993)
Enhanced Chassis Vehicle
(1993-Present)

MRAP CAT 1 - RG-31
(2007-Present)

Mission Equipment Packages

Acquisition In-Process

M – ATV

In TD Phase

JLTV Family of Vehicles

(2009?)

(2013?)
Cost Growth of Mission Equipment Packages

% Breakout of Unit Manufacturing Cost

- A- & B-kit MEP
- Armor Kits
- Base Vehicle

* = Based on current estimate and requirements
Case Example:

Joint Light Tactical Vehicle (JLTV)
JLTV – Program Background

- Oct 06: Program initially proposed to enter at Milestone (MS) B
- Nov 06: Ground Combat Forces Light Tactical Mobility Mobility ICD approved
- Apr 07: Joint Light Tactical Mobility Concept Decision
- Sep 07: OSD AT&L Acquisition Decision Memorandum (ADM) redirected JLTV to begin at Pre-MS-A
- Nov 07: CDD 2.7a released and “locked” for entry into TD Phase
- Dec 07: MS-A DAB approves MS-A Entry
- Feb 08: RFP for TD Phase released to Industry
- Mar 08: Key Programmatic Documents Approved by OSD
- Apr 08: RFP due from Industry for JLTV FoV TD Phase
- Oct 08: Three Industry teams awarded contracts
  1. BAE
  2. Lockheed Martin
  3. General Tactical Vehicles
- Nov 08: Protests filed w/GAO on JLTV FoV TD Contract Awards
- Feb 09: GAO provides ruling on protests
- Mar 09: SOW meetings held with Industry teams
The Balanced Solution – JLTV Family of Vehicles and Trailers

**PAYLOAD CATEGORY A**
- Payload: 3,500 lbs
- Performance: Exceed HMMWV
- Transport: 1x EAT* CH/CH 57/75
  2x IAT** C130

**Sub-Configurations**
- General Purpose Mobility
  (JLTV-A-GP) (4 Seat) - Army/USMC

---

**PAYLOAD CATEGORY B**
- Payload: 4,000 / 4,500 lbs
- Performance: Exceed HMMWV
- Transport: 1x EAT* CH 47/53
  1x IAT** C130

**Sub-Configurations**
- Infantry Carriers, Fire Team - USMC***
  (JLTV-B-IC) (6 Seat)
- Reconnaissance (JLTV-B-REC) (6 Seat) - Army
- Command & Control On The Move
  (JLTV-B-C20TM) (4 Seat) - Army/USMC
- Heavy Guns Carrier (JLTV-B-HGC) (4 Seat + Gunner) - Army/USMC
- Close Combat Weapons Carrier
  (JLTV-B-CCWC) (4 Seat) - Army/USMC
- Utility (JLTV-B-UTL) (2 Seat) - USMC
- Ambulance (JLTV-B-AMB) (3 Seat + 2 Litter) - Army/USMC

---

**PAYLOAD CATEGORY C**
- Payload: 5,100 lbs
- Performance: Exceed HMMWV
- Transport: 1x EAT* CH 47/53
  1x IAT** C130

**Sub-Configurations**
- Shelter Carrier / Utility / Prime Mover
  (JLTV-C-UTL)
  (2 Seat) - Army/USMC
- Ambulance (JLTV-C-AMB)
  (3 Seat + 4 Litter) - Army/USMC

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* EAT: External Air Transport
** IAT: Internal Air Transport
*** USMC & Army JLTV-B-ICs may be the same vehicle

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Trailers for each payload category to have similar payload and mobility as prime movers.

**Prototype will be built in TD Phase**
## JLTV Cost Estimating Requirements to Date...

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### Concept Vehicle Designs

**RDECOM (TARDEC)**

#### TARDEC Concept 5 Vehicles Threshold w/ Add-On Armor (Baseline Vehicles - CDD 2.7a)

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<th>Component</th>
<th>CAT A</th>
<th>CAT B</th>
<th>CAT C</th>
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<td>Body, Structure, Integral Armor, Winch, Dashboard</td>
<td>6,132</td>
<td>7,572</td>
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<td>Suspension, Axle, Tires, Steering, Drive Shafts, Seats</td>
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<td>4,812</td>
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<td>Engine, Transmission, Cooling/Electric/Fuel/Auxiliary Systems, NBC, Fire</td>
<td>3,210</td>
<td>3,387</td>
<td>3,287</td>
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<td>Suppression, A/C, GPS, IED Jammer</td>
<td>469</td>
<td>701</td>
<td>675</td>
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<td>Fuel &amp; Other POL</td>
<td>661</td>
<td>396</td>
<td>496</td>
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<tr>
<td>Weapon/Ring Mount, Pintle</td>
<td>0</td>
<td>300</td>
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<td><strong>Curb Weight</strong></td>
<td>14,324</td>
<td>17,168</td>
<td>15,222</td>
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<td>ECC Payload (includes 3/4 fuel)</td>
<td>1,525</td>
<td>1,153</td>
<td>825</td>
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<td><strong>ECC Weight (CW - 1/4 fuel + ECC Payload)</strong></td>
<td>15,709</td>
<td>18,222</td>
<td>15,947</td>
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<td>Additional Payload (full fuel, remaining crew w/equipment, 3 DOS, mission</td>
<td>1,976</td>
<td>3,660</td>
<td>3,976</td>
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<td>equipment, GPK)</td>
<td>6,168</td>
<td>11,319</td>
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<td><strong>Gross Vehicle Weight</strong></td>
<td>23,853</td>
<td>33,201</td>
<td>25,389</td>
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Detailed Cost Requests required WBS Expansion

JLTV Unit Manufacturing Cost

WBS Breakout for UMC
- Vehicle
- B-Kit Armor
- Basic Issue Items
- GFE A-Kit
- GFE B-Kit
- Gunner's Protection Kit
- Trailers

WBS Breakout for UMC
- Hull/Structure
- Suspension
- Power Pack/Drive Train
- Auxiliary Automotive
- Ring Mount
- B-Kit Armor
- EFP Armor
- Basic Issue Items
- GFE A-Kit
- GFE B-Kit
- Kits
- Gunner's Protection Kit
- Trailers
- G&A and FEE
- Integration and Assembly

Future Level of Detail

Concepts by RDECOM (TARDEC) allowed us to expand WBS

Level of Detail in EoA & CDD (Mar 07)

Level of Detail at MS A & Attributes Balancing Analysis Study (Dec 07)
Attributes Balancing Analysis Study

• ARCIC directed TRAC to conduct a JLTV attribute balancing analysis to determine the combination of Protection, Performance, and Payload that accomplishes the mission and is technically feasible and affordable for each JLTV mission variant.

• Results would be combined with information from the TD Phase to update CDD.

• TARDEC developed Concept Vehicle Designs (CVD) for the JLTV Mission Role Variants; concept vehicle designs (e.g. A1, B2, C4) represent different sets of attributes.

• The study team measured CVD performance against specific CDD requirements.
Parting Thoughts...

- Future modernization plans and increasing budget pressures will continue to put pressure to develop detailed unit costs in order to understand the cost drivers.
- The challenges are exacerbated by the increasing costs of DoD overhead.
- The Army is developing the TWV Modernization Strategy and due to the densities of the required systems, program unit cost will be a key driver.
- The costs for Mission Equipment Packages for Army’s tactical fleet are unaffordable in today’s budgetary environment.
- Need Industry’s help in developing affordable solutions.

“Unit cost and weight will determine the fate of the JLTV program.”

Kevin Fahey - PEO Combat Support/Combat Service Support
JLTV TD Phase Start Of Work meeting (Mar 09)